Dol-
lars, debts
and doubts—
H. H. Heimann.
Competition and the
depression. What will
Santa bring business?

CREDIT
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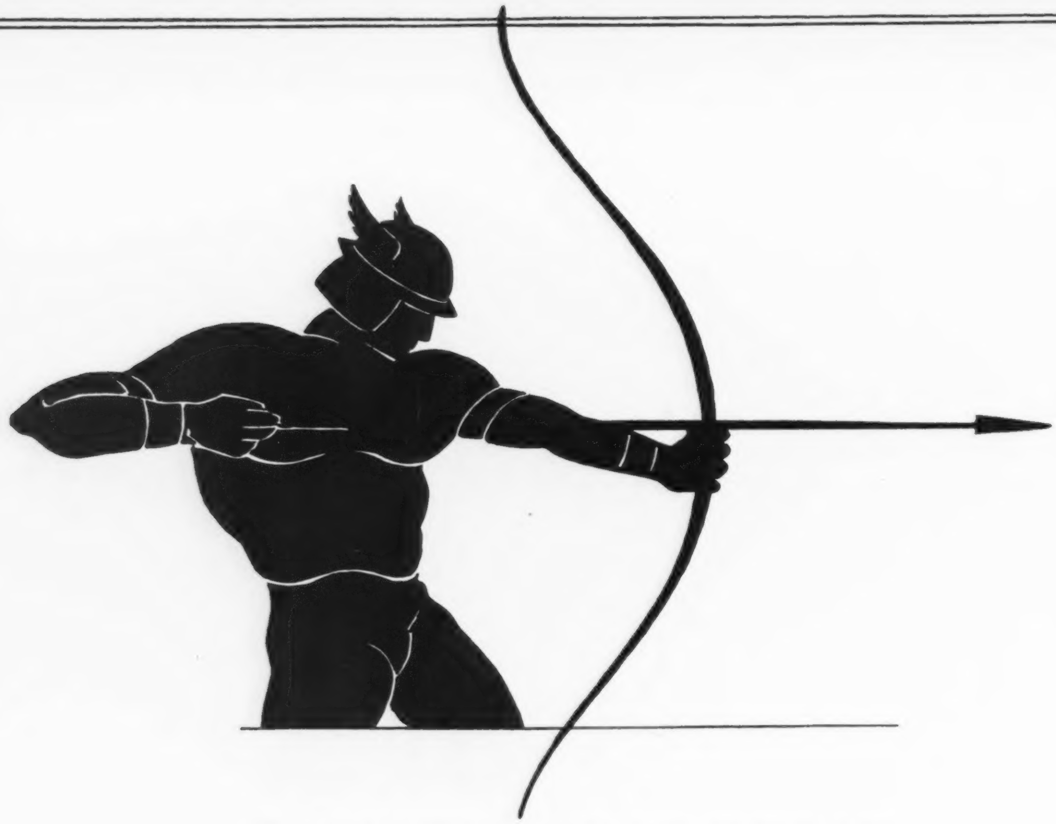

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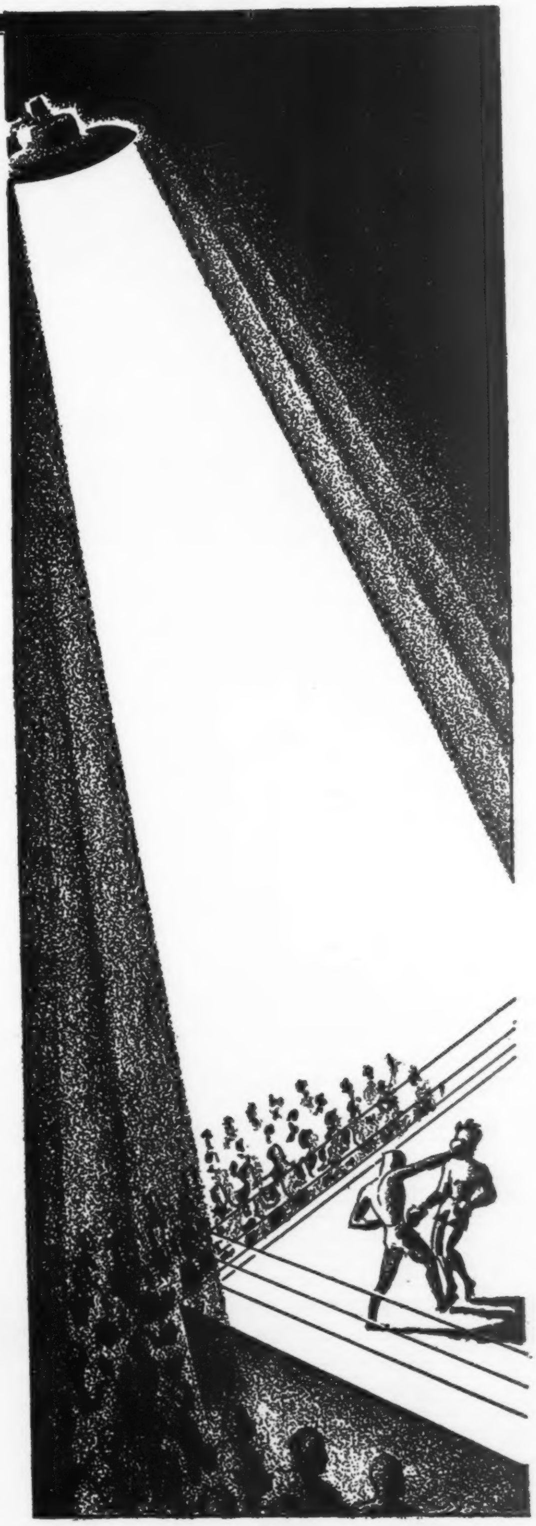
JACK DEMPSEY •



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CONTENTS FOR DECEMBER, 1933

Looking ahead

In our January issue, Executive Manager Henry H. Heimann will continue his analysis of money, gold, and the various monetary theories and panaceas that are now current. Be sure to read the first of these articles on dollars, debts and doubts in this issue. It's the best recommendation we know for the articles that will follow.

Also in our next number, there will be a summary of the credit provisions in the various N. R. A. codes. This is a timely feature of real importance to all our readers. Other items of interest in our coming number include another installment of the N. A. C. M.'s biography by Mr. Tregoe, and the report of the survey now under way by the Economic Credit Council on such timely topics as money, price-fixing, guarantee of bank deposits, and inflation.

Our cover

With the Christmas spirit beginning to permeate our surroundings our cover this month appears in the traditional Yuletide colors and displays the smiling features of St. Nick. The painting is from the brush of William Roscow and is the first of a series which will appear on the cover.

CREDIT and FINANCIAL MANAGEMENT

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Erie Avenue, F to G Streets, Philadelphia, Pa.
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What will Santa bring business?

Along about this time of year mothers, grandmothers and others close to the hearts of children are faced with the eternal question: Is there really a Santa Claus? This question is not easy to answer. Fortunate indeed is the mother who is able to provide an answer that leaves with the child's mind the real beauty of Santa and what he stands for.

However, children are not the only persons who are asking questions right now. Many are looking to the future and wondering what will be in Santa's sack for business.

Just by way of a starting point, as perhaps it is the one question affecting most every line of business, both retail, wholesale and industrial: What will Santa have in his bag as a solution for the Farm Relief problem? Will he fix it so the farmers will sell their goods for more cash and at the same time work his magic so that what the farmer has to buy does not cost much more than at present? Will Santa's wand when stretched over the broad acres of this great nation bring about a proper proportion of production so that we shall not have enormous surpluses which glut the marts and place us in the position of a super-abundance in the warehouses and granaries, with thousands of individuals in want for the bare necessities of sustenance? Most of us in business today recall that during the late months of the World War and the immediate years thereafter every effort was put forth to put every available acre into production. It now is estimated some forty million more acres are in production than in pre-war days. Secretary Wallace says that American farm products must be opened to the markets of the world or we must cut off the production on these forty millions of excess acres. As Santa is recognized as a personage who "knows all; sees all," we cannot desist asking him if the plan to kill 4,000,000 young pigs and 1,000,000 sows will bring an equilibrium between the supply and the market so that the farmer will be able to sell his pork products at a profit?

Another question quite perplexing to business right now is that as to the future of our money. What is the right answer about inflation, commodity dollars, gold purchases by the federal government, and finally, should Uncle Sam's dollars be again based upon the gold standard? Back in the days when those of us who are past the forty-year mark were asking our mothers and grandmas as to the authenticity of Santa, it was the accepted idea that "goods and services are exchanged for goods and services" and that money is merely the medium to facilitate such exchange.

Please, Mr. Santa, tell us about these "inflated" dollars, rubber dollars, or even the "commodity" dollars—will they represent a fixed value, so that if we decide to save some for a future spending, will they still represent full value, or must we exchange them at once for "goods and services," even if we do not now actually need such items, so as to be sure to get value out of these new-style dollars?

Finally, while we are about it, let us ask what will the new Congress do when it assembles in January? Upon the answer to that question hinge many business plans. What will the solons do about the Securities Act? Will they modify the present restrictions so that the doors of the capital market will be opened to an incessant knocking by legitimate business, or will the radical group insist that every attempt to sell securities must be enveloped in a haze of suspicion? We know it is not the province of our banking system to loan depositors' money for capital investments. But other credits should be available for such purposes in this rich country of ours, when and if the people who buy and sell the bonds and securities representing such investments can be brought out from the present haze of suspicion.

If Santa could somehow contrive to answer these questions, how happy he could make us! But, wait! If Santa *did* tell us the true answers to *all* our problems, *would* we believe him? We venture the guess an Anti-Santa Bloc would develop overnight. Meanwhile, we wish our readers a Merry Christmas.

R. G. Tobin

Dollars, debts and doubts

■ "Money is as necessary to the exchange of goods as language to the exchange of ideas. A nation stands or falls upon the inherent soundness of its money. It has been well said that bad money can be more harmful than revolt."

First in a series on money by HENRY H. HEIMANN, Executive Manager, N.A.C.M.

Two nickels look bigger than a dime to any child. Of course they won't buy more, nor are they worth more, but you can't convince a child of that.

I am afraid that some of our people have never grown mentally. How else can you explain some of the present thinking on our problem of money?

There is the silver advocate, the bimetallist, the symmetalist (combination of gold and silver,) the printing-press money advocate, the commodity dollar disciple and there are a host of others who propose to solve the ills of the world through a new medium of exchange. In due course these theories or plans will be discussed. It might be well to start at the beginning. To understand and analyze properly these money panaceas, the fundamentals of money should be reviewed.

Before launching into a monetary discussion about which there are almost as many opinions as there are economists, we ought to try to discover at least one basic point which may be said to be common to the various money programs. This is rather easy.

Gold, a commodity which has served as a medium of exchange for over a century, according to those who advocate the new money programs, is unsuitable and antiquated.

"These are new times, creating new conditions," so we are told, "and we need a new yardstick to measure values."

Some would cut a foot from this yardstick, others would add to it, still others would make it rubber. Understand, of course, they would still want it to be known as a yard and pass for a yard even though it were 24 inches, 48 inches, or a piece of elastic which might be either or both. But as to the obsolescence of gold as a medium of exchange, there are some who are not ready to admit of this. Let's see, then, why gold became the common denominator of money, and determine whether these reasons still hold.

Originally commodities were exchanged through barter. In the primitive days, when barter prevailed, if a man had more fish than he needed he might exchange them for some furs of which someone had a surplus. That is, assuming the fur trapper needed fish for food. In the barter age the complexities of modern civilization were unknown for, in theory and to a considerable degree in practice, the demand for goods always equaled the supply. Civilization, however, could never have been developed very far under the barter system; the impossibility of a satisfactory expansion of trade under barter is obvious.

The evolution from the barter period to the use of a medium of exchange was the natural result of the association of men. To use the illustration of the primitive fisherman and trapper: assume the fisherman at some time experienced an unusual catch. He did not want to exchange his surplus catch for furs because he could not use all of the furs for clothing. On the other hand if he did not exchange his fish he would have more food than he needed and the fish would soon spoil.

Now let us assume that one of the problems common to both the fisherman and trapper was heat for comfort during the winter months. Let us further assume that heat was a common need for all of the people. It required little ingenuity on the part of the fisherman to realize that he had better exchange the surplus fish for wood. Everybody needed wood and the supply was limited in his community. He reasoned he could always exchange the wood for some other necessity of life. Very early the trapper discovered the same situation, so when he had an excess supply of furs he made his exchange for wood. Soon wood became the common denominator of value of the catch of both the fisherman and the trapper.

By carrying our illustration further we can understand how the whole community in just a short space of time valued every commodity it gathered in terms of wood. Wood then became the common medium of exchange. It was money to those primitive people and for their limited needs served the same purpose as money does for us.

At various times different commodities have served as mediums of exchange. To mention just a few, there were shells, furs, salt, tobacco and cows. The limitation of these commodities as mediums of exchange needs no argument. Just imagine cows being the medium of exchange today. Can you picture yourself walking down Main Street leading a brindle cow to the nearest merchant to exchange it possibly for a suit? Perhaps its shocking inadequacy is best emphasized by realizing that under these conditions Main Street would still be a cowpath.

Nevertheless, the use of these media formed the transitory links to our present money. They were all steps in the evolutionary process. It seems like a far cry from the use of our money as a medium of exchange to the old days of barter, yet there are at present certain customs which are survivals of the old bartering age. Out in the rural districts, for instance, farmers are frequently given the privilege of working out their taxes by doing grading on the highway. This is nothing but a barter of services between the farmer and his government.

Today money is as necessary to the exchange of goods as language to the exchange of ideas. A nation stands or falls upon the inherent soundness of its money. It has been well said that bad money can be more harmful to a nation than a revolution.

The function of money is to serve as a general instrument of exchange, as a measure and medium in the purchase and sale of certain commodities, and as a common denominator in comparing values. Do not overlook the quality of common denominator for that becomes of considerable importance when we consider the gold standard.

In selecting a commodity to serve as sound money, not only must the intrinsic value as well as the physical aspect of the particular commodity used be considered, but the mental attitude on the part of man towards the particular commodity must receive consideration. Good money not only regularly passes from bearer to bearer without question for the payment of commodities or services but is accepted with the intention of offering it in payment to others, taken at its face value without assay or special tests of quality and quantity, and finally—and this is important—accepted without any consideration of the credit of the individual, who offers it in payment, for these services.

The adoption of gold as a standard medium of exchange was not an arbitrary choice. Gold is not a perfect standard—even the strongest gold adherents frankly confess as much—but through the evolution of experience with various commodities there has never been anything brought forward that is better than gold as a practical medium of exchange.

There are many reasons why gold evolved as the best commodity for a medium of exchange. It is scarce; durable; not subject to wide fluctuation with respect to supply and demand; capable of standardization in quality; can be moved with facility; and last, but by no means least, has visual and sentimental appeal. *There is a lure about gold to the average man. Its importance as an international standard is found in the fact that it brings the currency of different countries into a definite normal relationship one to another.*

> *THERE being two kinds of Property, Money and General Credit, our greatest Property is Credit . . . If you were ignorant of this, that Credit is the greatest capital of all toward the acquisition of wealth, you would be utterly ignorant. . . . .*
> (DEMOSTHENES, 384-322, B. C.)

It is also well to realize that while most nations have abandoned the gold standard, strictly speaking gold still continues to be the measure of value in these countries in respect to international settlements; and even domestic currency represents a certain measure of implied promise of redemption in gold, and commands a value commensurate with the ultimate probability or hope of payment in the form of gold.

There have been a number of varieties of gold standards; a fact little understood by the average person. Technically the full gold standard did not exist anywhere except in this country. We have, of course, now abandoned it. Our gold standard permitted of no restrictions on gold imports or exports; nor on the redemption of currency or gold coin or bullion, nor on the coinage at the mint of all gold offered for coinage, nor of the availability of gold for circulation by those who desired it.

Perhaps a gold bullion standard best describes the monetary system of other countries which were normally classified as operating under the so-called gold standard. These countries decreed that their central banks were obliged to redeem their notes in bullion. This usually required a large amount of notes, about the equivalent of eight thousand dollars worth to get a bar of bullion. Redemption in coins was not an inherent right. The effect of this was that gold was really available only for international purposes and for all practical purposes denied for domestic circulation. The mint in England, for example, was under obligation to mint gold only for the Bank of England.

Other countries had a gold exchange standard by which the central bank was obliged to redeem its notes either in gold or *in exchange on a country which had the gold standard.* Under this plan the central bank was (*Cont. on page* 41)

Money—bales of it! Millions! Try to match the delighted laugh of William H. Woodin, Secretary of the Treasury (second from right), as he picked up a bale of brand new money at the Bureau of Engraving last March. At Woodin's right are Robert B. O'Hara, Superintendent of the Examining Division and J. H. Douglas, Asst. Secretary of the Treasury. At Woodin's left is A. W. Hall, Bureau Director.

First letter psychology

The collection manager must be consistent, persistent, insistent —and a good first letter writer.

by FRED A. WICHELMAN,
General Credit Manager,
A. C. Horn Company,
Long Island City, N. Y.

It will at once, and rather readily, be admitted that the principal purpose of the collection letter is to collect. Composition of such a letter has become an art, practiced by many and with varying degrees of success. While there are no customers exactly alike in character and disposition, there certainly are identical circumstances and it is this which has created the form letter system. Any good credit or collection man will acknowledge that the customer is more important than the circumstance and that it is the customer who deserves and should get consideration rather than the circumstance. Yet it is undoubtedly a truth that at least ninety-five per-cent of all the collection letters written are designed to fit circumstances and not specific customers. Must this continue?

Should the customer whose account has been profitable over a period of twenty years and whose bill is thirty days overdue receive exactly the same letter as the customer who is new on the books and whose thirty day overdue account represents a first sale? I think not.

There are exactly similar circumstances but vastly different problems. In each instance you have an account that is thirty days past due and each account is of approximately the same amount. Do we simply say to each of these, as so many others have said so many millions of times, "We are sure your account has been overlooked and won't you kindly mail your check today." I think not.

And why not? Because, and let us consider first the new account and the proper approach. Here is a customer with whom you are beginning a business relationship which it certainly must be your desire to continue while the account is profitable to you. Your first letter should carry the same impression as the salesman representing your company whose personality sold your merchandise. That salesman did not represent his house to be careless and indifferent. He certainly pictured his company as efficient and experienced—he claimed his companies' products were of quality manufactured with precise care and guaranteed to do the job for which they were specifically designed. And now this customer, whose business is of great potential profit is contacted for the first time by the Credit Department. Does he receive a letter built for him specifically just as was the merchandise sold him—or does he receive a letter designed to merely fit any account thirty days past due regardless of its race, color or creed? If every collection man wrote his first letter properly a great many of those letters that follow would never be written. There would never be a need for them.

In the well organized efficient credit department there will be available to the collection or credit man much information concerning the account, that is of inestimable value in planning and creating the letter. Your credit file will reveal sufficient data to enable you to write a letter that will immediately cause your customer to give it attention. He will give it attention because it will be apparent to him that it was created for him alone and not for everybody who ever bought your goods. He will answer it because it is a letter of that kind and because it does not insultingly assume that he is carelessly overlooking such an important item of his business as his account payable. He will answer it because he will refuse to ignore a letter that obviously indicates thoughtful consideration of him and his own account.

Better collection letters will be written when the collection letter writer learns to examine the credit files before going into the "trance of composition." In about four minutes without any difficulty at all the careless collection man can ruin the result of hours of patient efforts by the field representative, of days of experimenting by the companies' laboratories, of weeks of careful guidance of the salesman by the Sales Executives and it isn't even a good trick. It is a damned expensive one and that collection expert should be shot long before sunrise.

In addition to examination of the credit file which will give him information regarding the customers length of time in business, invested capital, paying habits, selling methods, etc., the sales department files may reveal much of value. Perhaps your material is being bought for a new line the customer intends to produce. Perhaps there is a report regarding some special feature and your records show it not. The customer doesn't know that your department contains no mind readers. He thinks, and rightly so, that his arrangement with your salesman is his arrangement with you. So check up the salesman's reports. Most of the time a few seconds conversation with the Sales Manager will answer all the questions.

Your ammunition is facts—use no blank cartridges of assumption. You know and there is no guessing. Your customer has become an individual personality and not a composite photograph. Your letter is framed to fit his own picture.

Now what to say and how to say it.

Here are the simple unvarnished facts:

Richard Rowe Company, Inc. are furniture manufacturers in North Carolina. The President is Richard Rowe who started the business thirty years ago. The company is capitalized at fifty thousand and its paying record shows discounts to 30 slow. The company like all others in the industry has been selling close and receivables are slow. The company's reputation is good. You have sold a first order of standard material and the invoice has matured and is now thirty days overdue. Now how will the average "overlooked, we are sure" letter be received by Richard Rowe. Not so good and it may earn the well-known reply "will mail check shortly." But you can bet three times the amount of your account that it (*Cont. on page* 42)

A catalog of coverages

by C. D. MINOR, Supt., Special Service Dep't., Royal—Liverpool Groups, New York.

Property damage insurance against the hazards of fire and windstorm has long been recognized by the credit man as essential conservation of the assets upon which credit is based. It is questionable, however, whether similar consideration has been given to various forms of income insurance. The most acceptable risk for credit would appear to be the individual or concern having a business or assets not only ample as to value or capital investment but also producing sufficient income to meet all carrying charges and leave a residue that will enable the owner to reduce, systematically, any existing obligations.

Such a healthy condition precludes the possibility of a liquidation of capital assets for the purpose of meeting any sort of indebtedness. As an illustrative example, we might consider the owner of a building with a potential value of, say, $200,000, but which is in such an unfavorable locality or in such bad repair that its income is negligible when compared with what it should be. From a credit standpoint, such a building owner might at first be looked upon as being entirely acceptable; closer analysis of his holdings, however, will reveal that his assets are of a "frozen" nature and that as a credit risk the essential element of liquidity is lacking.

There are instances, too, of business concerns which, following a substantial loss by fire, have been able to collect the full amount of the property damage sustained, but have nevertheless been forced into bankruptcy or liquidation by reason of the fact that, during the period of interruption, the fire deprived them of their earnings, thus exposing them to the heavy burden of continuing charges and expenses with a consequent depletion of assets. After the period of rebuilding and repairs needed to prepare them for the resumption of business, such concerns have found themselves faced not only with a deficit requiring additional capital but also with the problem of obtaining such credit through credit channels—a problem made more difficult because of the impairment sustained.

Such a predicament could have been avoided if those interested had anticipated the contingency by carrying business interruption insurance, or "Use and Occupancy" as it is commonly called. This type of protection may be had against the hazards of fire, tornado, earthquake, explosion, riot and civil commotion and sprinkler leakage, and in the average risk several or all of the hazards mentioned should be insured against under such a policy if the credit stability of the concern is to be maintained against all odds. "Use and Occupancy" insurance is so vital to the continued life of any business, where the occupancy of a building and the use of machinery and equipment and stock are necessary, that it invites the close attention of the credit man in its relation to every account of any considerable consequence.

> **The income forms of insurance are various but all are of interest to the credit executive.**

Rent insurance, while probably not so important from a credit standpoint in connection with the average business as is "Use and Occupancy" insurance, is a form of protection designed to indemnify the insured for loss of income which would have been received in the form of rents had there been no fire or other casualty, where the property covered is rendered untenantable by the hazard insured against. Where rent income constitutes a major portion of earnings, or the sole earnings, of one who is being considered for credit, it will be wisdom on the part of the credit man handling the account to see that adequate rent insurance is carried so that the process of liquidation of any existing obligations may not suffer interruption should the property owned by the debtor be rendered untenantable, and therefore barren of income, in consequence of any of the hazards named.

In addition to the foregoing types of insurance, which are essential as a basis for credit, there are others of major importance. It is possible, for example, for the owner of a building to meet financial disaster through a mishap on his premises which cause serious injury to some person. To preclude the possibility of loss from such a source, public liability insurance, elevator liability insurance and perhaps other similar forms of coverage should be carried. These may not, at first glance, appear important to the credit man; however, there are innumerable cases on record where the solvency of an individual or firm has been impaired solely through lack of such protection. Many other coverages might be mentioned and discussed from this credit angle. The credit man who wishes to do so can easily obtain from any reputable insurance man or broker additional classes of insurance which will often have a decided relation to credit.

Generally speaking, fire insurance is carried by property owners because the fire hazard is looked upon as being ever present. It is said that no portion of the country is immune from the ravages of a tornado, and this assertion has been borne out by disasters which in the past have been brought by the fury of wind to unsuspecting communities without notice. It would therefore appear that tornado insurance is almost as essential as coverage against fire. Modern conveniences used for heating, lighting and refrigeration have also brought into existence an explosion hazard which the property owner cannot afford to disregard. Dozens of explosions occur throughout the United States daily, many of them causing extensive property damage. The majority of these losses are not covered by insurance, and instance after instance could be submitted to show where heavy burdens have been placed upon the property owner by reason of a loss of this character. In the case of many risks the explosion hazard is (*Continued on page* 47)

Competition and depression

"Our study of the special conditions of the depression should be designed to give us a broader understanding of the long-run economic processes upon which we must depend to promote sound and wholesome long-run prosperity."

by JOHN DICKINSON, Assistant Secretary of Commerce

"Competition and the Depression." The vistas opened up by this title are so far-reaching that I shall have little opportunity to do more than sketch them in broadest outline.

We must always remember that in a special period like the present, we are viewing the economic processes from a more or less exceptional point of view and viewing them in what may be described as their pathological aspects. We need to be aware of this and to look beneath the surface of the special forces now operating in order to discover the more normal and permanent forces of which the present situation is but a passing phase.

It is imperative that we take this longer view in order to avoid what, in my own opinion, would be the disastrous and fatal mistake of attempting to recover from the present depression by restoring the conditions of our recent period of so-called prosperity. It was precisely those conditions of supposed prosperity which have brought us to our present situation, and if we repeat them, the result can only be a repetition on a still larger and more disastrous scale of our present period of depression. In other words, our study of the special conditions of the present depression should be designed to give us a broader understanding of the long-run economic processes upon which we must depend to promote sound and wholesome long-run prosperity.

I suggest that it is from both these standpoints—the standpoint of present depression conditions and the standpoint of long-run economic forces—that we should approach the problem of competition, viewing it both as it is now at work in the depression period and as it works under modern conditions of industry generally. It is striking to what similar results observations from both these points of view lead.

The stereotyped classical theory of economics is that competition in the sense of business rivalry between persons attempting to sell the same kind of goods to the public supplies a perpetual balance wheel to the economic process, always tending to prevent it from over-development in any direction and serving also to keep in balance the interests of business, labor and the consuming public. There is no need to state the theory to you. You will recall that its principal features are that through free competition supply is brought constantly into adjustment with demand through the entry and withdrawal of sellers in the market, that inefficient producers are eliminated, and the price tends to equal the cost of production, including, of course, return on investment of the highest cost producer whose goods are needed to satisfy the demand.

I submit that there is nothing wrong with the classical theory of competition, so far as it goes, and subject always to the very important proviso that in order to be sound it calls for a further definition of the kind of rivalry, the type of struggle, that competition is supposed to consist in. Rivalry and struggle are essential and inevitable in all human affairs. Without them life ceases to be alive. But not every kind of rivalry or struggle makes for life and growth and the kinds of rivalry and struggle which make for life rather than destruction change with a changing environment and depend always upon the nature of the whole situation, the whole complex factors within which they go on.

If the depression has taught us anything about the nature of the economic process, it has certainly shown us how the results of competition depend upon the types of competitive practices employed, and upon the industrial situation within which competition goes on. It has disclosed that under the special conditions of modern industrial life and with the type of competitive practices which have widely prevailed, practically every one of the supposed beneficial checks and balances of competition, practically every one of the automatic adjustments which economic theory attributes to competition, may simply refuse to work. For example, under the operation of competition excessive producing capacity has not withdrawn from the field leaving the market to the more efficient producers.

On the contrary, excess capacity everywhere remains and diminished demand is merely reflected in a general reduction of operations among the producers all around. Inefficient producers have not ceased to operate, but on the contrary it is often the inefficient producer who by violating decent employment standards and under-paying his labor, as well as working them an excessive number of hours is able to keep a larger percentage of his production capacity employed than some of his more fundamentally efficient rivals.

Under such circumstances it may well be that price has not been maintained at the point which will return the cost of production to all the producers still in the market. Obviously, this is impossible under conditions where high cost and low cost plants alike remain in the field to compete for a demand greatly below the amount of their combined capacity. Under such conditions competition in the sense of unrestrained rivalry, far from amounting to a system of checks and balances and an agency of adjustment, suggests more accurately a continually descending spiral pointing through industrial anarchy toward ultimate destruction for every one.

Where all, or practically all, plants in the field are in distress, and frankly reaching out for further business to employ their unused capacity, a given plant will often snatch at an order from a

The vicious cycle of destructive competition includes plant expansion, over-production, price cutting, profitless sales, increased volume which encourages more expansion and keeps the cycle growing more and more dangerously.

powerful buyer at a figure below the cost of production if it merely covers out-of-pocket expenses and contributes something, however little, toward overhead. The buyer who obtains such an advantage is placed in a favored position as compared with his competitors and these at once swarm down on all the other producers with a clamorous demand to be given an equally favorable price. With a scarcity of buyers and a plethora of producers, price as a result of these practices tends within the industry to be brought to a figure which not merely carries no return to the producer but frequently no adequate return to labor and to those who supply the raw materials.

This situation exists today in many industries where the farmer who supplies the raw material of the industry and the laborers who work it up are not receiving adequate return for their efforts, while the industry itself is so paralyzed that it does not afford a safe or attractive field for investment and its credit is destroyed. The mere fact that such a situation is accompanied by lower prices cannot be regarded from the standpoint of the public interest as in itself overbalancing the evils which it entails.

The sequence of events constituting the industrial rake's progress which I have just described is unfortunately not confined exclusively to the period of the present depression, but tends to work itself out even in more normal times, because of certain special conditions of modern industry. These special conditions profoundly affected the operation of competition and no attempt to understand the place and effect which competition has in our present industrial life can afford to disregard them.

They are connected primarily with two factors; first, the great size and expansiveness of the typical modern plant which employs all the most advanced and improved devices of machine technology; and second, the practice of mass production which makes impossible a very nice or close adjustment of plant capacity to demand and encourages plant building in anticipation of demand. The combined result of these two factors is to bring into existence plants laboring under the pressure of very heavy overhead costs and standing in a position of relatively unstable equilibrium with reference to the demand which they aim to supply.

Consequently, whenever there is even a slight slackening-down of demand, the pressure of overhead offers an almost irresistible temptation to the type of competitive practices which lead for the industry as a whole into the rake's progress which I have already described.

The unusual stages in the progress are as follows. In order to meet the burden of overhead, there is always a strong temptation on the producer to step up volume by obtaining orders from particular customers at special low prices which, if offered to all customers, would put the plant in the red. If, however, additional business can be obtained by these orders from a few favored customers, it may seem to the plant management a good stroke of business to help in this way toward carrying the overhead. Inevitably, however, the granting of special prices in this way becomes noised about, pressure is brought to bear upon other producers to grant the same prices, customers who are in competition with the recipients of the special favors become dissatisfied, and the whole price structure slips down with jarring repercussions to levels which will not defray the production costs of all the producers remaining in the business.

It has been suggested in some quarters that competitive practices of the kind just mentioned, and leading to the industrial consequences which I have described, are among the causes of the depression. The depression has many causes and almost every day a new one is being found for it, but, in my own opinion, destructive competition cannot be set down as in any direct sense a major cause. However, there can be little doubt that with the depression upon us, and in our present situation, destructive competition has operated and is operating to retard recovery, and, on the contrary, to prolong and deepen the depression.

And while I should certainly not include the evils of such competition as in any sense a major cause of the depression, I should certainly regard them as an important (*Continued on page* 39)

What is cost?

"Officially there is little which may be construed as necessitating any code interpretation that selling below over-all cost is to be prohibited by NRA."

by ARTHUR ANDERSEN,
Certified Public Accountant,
Chicago, Ill.

The prevalence of the use in industrial codes of an injunction against selling below cost would lead to the belief that it is in some way mandatory under the National Industrial Recovery Act. This is not borne out by a study of the facts.

If we examine the Act itself (H. R. 5755) we find the following phrase as a clue to the origination of the idea: "Whenever the President shall find that destructive wage or *price cutting* or other activities contrary to the policy of this title are being practiced in any trade or industry. . . etc." This also ties in with the stated policy of the Act—"to eliminate unfair competitive practices"—but neither phrase bears definitely on the subject of costs, unless there is the further assumption that "destructive—price cutting" means cutting prices to less than cost.

The first official discussion of the Act was contained in the President's Bulletin No. 1, issued on June 16, 1933, the same day the Act was approved. In it there is the explanation that: "We are relaxing some of the safeguards of the anti-trust laws. The public must be protected against the abuses that led to their enactment, and to this end we are putting in place of *old principles of unchecked competition* some new Government controls." There is also a somewhat contradictory injunction that: "if we now inflate prices as fast and as far as we increase wages, the whole project will be set at naught. We cannot hope for the full effect of this plan unless, in these first critical months, and even at the expense of full initial profits, we defer price increases as long as possible."

Evidently it would be difficult to read into these phrases any prohibition against selling below over-all cost. In fact, the opposite is true, if the last quotation alone is considered, for if a business had been operating at a loss, as so many did in the first six months of 1933, and then it raised wages and increased the number of employees, yet "deferred price increases as long as possible," it would inevitably be selling products at less than their total cost.

In N.R.A. Bulletin No. 2 the only possible reference to price regulation is in the statement that industry codes should contain: "such means as each industry may find necessary to protect its constructive and cooperating majority from the wasteful and unfair competition of minorities or recalcitrants." In N.R.A. Bulletin No. 3, which deals entirely with the President's Reemployment Agreement, there is no reference to either prices or costs.

Officially then, there is very little which may be construed as necessitating any code interpretation that selling below over-all cost is to be prohibited. Nevertheless, the idea is almost all-pervasive. Among fourteen of the codes which had been approved prior to September first, ten specifically defined selling below cost as unfair competitive practice. In codes submitted but not yet approved, it also appears to be the rule that "selling below cost" is prohibited. There might be some point to all this if the term "cost" were to be defined as that cost which includes only material, labor and manufacturing overhead—sometimes called "cost of production" and sometimes known as "manufacturing cost." This, however, is not the case. In some codes there is no definition of cost. In others it is made to mean total or over-all cost. In still others it is made to include a conglomeration of charges which fall into a variety of accounting classifications. It may clarify matters if for the moment we trace the inception of the phrase and thereby try to determine the factors which have led to its inclusion.

Before the Act was signed, the National Association of Manufacturers issued a "Model Code for Self-Governing Industries" in which will be found the following suggestions:

> "Each of the above divisions, and any others which may subsequently be formed, shall proceed at once to provide for standard methods of costing which shall be used by all manufacturers within that division for the purposes of this section of the code.
>
> "It shall be an unfair method of competition for any such manufacturer to sell below reasonable cost. What is statistically known as the 'mode' may be used as a reasonable cost, but must be so approved. (Note: It might instead be provided that no producer shall sell below his own cost of production.)"

Attention is called to the fact that the cost herein discussed is the cost of production, which to an accountant means the cost to manufacture (namely, material, plus labor, plus manufacturing expenses) and not the over-all cost.

Almost a month later, under date of June 29, 1933, a bulletin of the Chamber of Commerce of the United States contained the following query and answer, as information to code makers:

Q. May an industry agree not to sell below cost?

A. Industries may not only agree not to sell below cost (individual cost) but such agreements are desired by the administration. Any rule on this subject should set forth the various factors which must be considered in determining cost and be based upon the uniform cost system approved by members of the industry.

This interpretation varies from that in the "Model Code" in more positively specifying the use of the agreement, in stating that the cost used shall be that of the individual business, and in failing to give any definition of what constitutes cost.

At intervals, from the fore part of June to the middle of July, various "Code Services" also mentioned this feature, suggesting that agreements not to sell below cost might be almost compulsory, but also indicating that there was no Government formula for cost and that industry in general had not arrived at a definition of "cost."

Our own interest in the matter led to consultation with several NRA officials about the middle of July, only to show that the matter of definition of cost was still a problem. One official believed that an *exact* definition of cost

would be excluded from the codes, but that they might contain some definition of general principles applicable to the term "cost." Another official gave as his belief that the solution would lie in the working out of agreeable arrangements within each industry, which arrangements very probably would also include uniform cost accounting for the industry. The general impression gained from this preliminary discussion was that no one had decided what constituted cost, either from the viewpoint of a single business or for an industry as a whole.

Probably most code makers have studied the "Model Code" previously quoted, and it may be accepted as containing the inception of the code use of the idea that selling below cost constitutes an unfair trade practice. In it the idea was fairly reasonably proposed. The industry control body was supposed to establish some basis whereby it could determine whether any member of the industry was selling below a *reasonable cost of production,* because such vicious price-cutting could not help being unfair competition. It apparently did not propose that industry should practically be compelled legally to operate at a profit, as would be the case if "cost" was made to include all of the expenditures of a business and perhaps also some element of profit. It did not attempt to set up a device whereby a legally permissible regulation could be transmuted into a price regulatory provision. But it did indicate that the use of some standard methods of costing would be a desirable feature for industry. Unfortunately the code makers for the various industries appear to have grasped at a phrase and generally to have misinterpreted the intent, or else to have used a phrase without any attempt to interpret or define its meaning.

A few quotations, chosen at random from various submitted codes, will serve to illustrate the different interpretations and expressions which have resulted. Thus the code of the shipbuilding and ship repair industry stated—

> "To accomplish the purpose contemplated by this Act, the members signatory to this code agree that it shall be an unfair method of competition to sell below a reasonable cost arrived at by a system of formulas established by the associations."

and thereby left a lot to the imagination or to further development.

A different expression is found in the code of the National Boot and Shoe Manufacturers, which recites:

> "The practice of selling below cost is detrimental to the industry; and each manufacturer shall submit upon request a statement from a certified public accountant recognized by the cooperative body for the industry as qualified, to the effect that such manufacturer has a proper cost accounting system; which statement, however, may not be accepted as final by the cooperative, either as to cost accounting or as to selling below cost."

The electrical manufacturing industry was very much more explicit, providing that

> "every employer shall use an accounting system which conforms to the principles of and is at least as detailed and complete as the uniform and standard method of accounting set forth in the Sixth edition of the Manual of Accounting, prepared and published by the National Electrical Manufacturers Association, and a costing system which conforms to the principles of and is at least as detailed and complete as the Standard and uniform method of costing to be formulated or approved by the Board of Governors or Executive Committee of National Electrical Manufacturers Association, with such variations therefrom as may be required by the individual conditions affecting any employer or group of employers and as may be approved by the Board of Governors or Executive Committee of National Electrical Manufacturers Association, etc., etc."

Adding also the prohibition that

> "no employer shall sell or exchange any product of his manufacture at a price or upon such terms or conditions that will result in the customer paying for the goods received less than the cost to the seller, determined in accordance with the uniform and standard method of costing hereinabove prescribed. . . ."

This association appears to have understood the intent of the Act, to have followed somewhat the principles set forth in the "Model Code" and to have provided a basis for industry control, but the code phrasing leaves one much in doubt as to the meaning of the "cost" specified.

This code provision may be compared with the following quotation from a code draft, which may have missed the intent of the Act, but which missed very little in the line of business expenditures, classifying practically everything as a part of cost:

Selling below cost—

> It shall constitute unfair competition for any manufacturer to sell his product below cost, except on close-outs. Cost as used herein is defined to include the actual cost of raw materials and supplies; fair wages for employees; power, light, heat, water and other miscellaneous operating expenses; repairs and maintenance of buildings and equipment; executive, supervisory, sales and office salaries and expenses; advertising and promotional expense; distribution and delivery expense; rent for show rooms and warehouses; legal and collection expenses; bad debt losses; depreciation and obsolescence of buildings and equipment at the rates provided under the Federal (*Cont. on page* 29)

General Hugh S. Johnson, Recovery Administrator, (left), listening closely as Robert P. Lamont, (right), Hoover Secretary of Commerce and Past President of American Iron and Steel Institute, opened the steel code hearing, July 31.

Serial service succeeds

A new idea in collection procedure by telegraph is developed that brings results in cash and cuts costs of collection. Here are reader reactions in the report of a survey made by

PHILIP N. SCHYULER

There is something definitely new in credit procedure. While it is available only through the telegraph companies, it was discovered by alert credit managers themselves, who learned by experience that several quick telegraphic thrusts in one single day would in an amazingly high percentage of cases and at surprisingly low cost puncture pocket-books of persistently slow and neglectful payers.

The service developed by the telegraph companies which makes this new "quick-thrust" procedure practical and economical is known as Serial Service. It permits the sending of a series of telegrams to the same address on one given day at a rate, which, when compared to the fast (full rates) telegram, is approximately 60% less for the wordage involved.

"Quantity" is the important consideration in this form of collection attack, according to L. F. Rosenberger of the Coleman Lamp and Stove Company, Wichita, Kansas, and member of the National Association of Credit Men, who is one of the many credit authorities now making use of this new method of blasting the delinquents. When he has a real "tough nut" to crack, Mr. Rosenberger sends three messages by Serial Service to follow up accounts for settlement.

"The wording of the wires in our experience is not so important as the sending of the three wires in the same day," Mr. Rosenberger explained to Postal Telegraph.

"Our experience has been that we will receive approximately 50% response by wire to the first telegram; half of the remainder will respond to the second wire sent the same day, and where three wires are sent the same day we will receive some kind of response in almost every case."

Mr. Rosenberger submitted the following series of three sample collection telegrams:

1. When may we expect remittance please wire reply our expense.
2. No reply received our wire (date) unable extend account further when may we expect remittance.
3. Please reply our telegrams regarding account imperative this matter be given immediate attention.

"As stated previously, however," Mr. Rosenberger continued, "the contents of the wires are not so important as the quantity. On the first wire, the average debtor perhaps shrugs his shoulders, throws the wire in the waste-basket and goes on about his daily business. When he receives the second wire about two hours later, he begins to become rather disturbed, and if he gets a third wire late in the evening, he seems to feel something ought to be done about it right away.

"Our impression of the use of Serial Service has been very good indeed, on accounts running from $25 up. We use telegrams almost invariably before taking serious action on accounts and consider the cost of these telegrams an excellent investment."

Using the three sample messages suggested by Mr. Rosenberger, an analysis of cost proves interesting and demonstrates the practical savings involved in the "excellent investment" available to all credit managers collecting accounts between points in the United States. Serial Service is not yet available to Canada or other countries. Such analysis also discloses the simplicity of the Service and the economy protection it affords users. First, briefly, here are the regulations governing Serial Service:

1. Serial Service offers a very low rate for the transmission of words in bulk, whereby a day's telegraphic correspondence from one individual or concern to another individual or concern may be combined into one message, sent in sections of a series, or serial.
2. The basis for charge is the daily cumulative word total for all sections (messages) of a serial sent by the customer to one address, except that no section shall be counted at less than fifteen words and no daily serial at less than fifty words. The charge is calculated from the day letter rate between the two points so served for the daily wordage reported in the cumulative total, plus an expense handling of 20 percent, with the initial rates rounded off in multiples of five cents and the excess ten word rates one-fifth of the initial fifty word rate.
3. In order to obtain the advantages of Serial Service, the sender must indicate on his message (and the different sections thereof) that he wishes this class of service, using the symbol "SER" for the purpose.
4. Serials may be set up for sections moving in one direction only.
5. Paid and collect messages cannot be combined in the same serial.
6. Finally, and this is of particular interest in the case of collection messages, since in a high percentage of cases the first wire may bring the desired results, in the event that only one message of a planned series is sent, the telegraph companies waive their right to the Serial Service expense handling charge and the one message is paid for on the basis of the lowest day rate available.

Now, using the three sample messages, to analyze the cost, presume the creditor is in New York and the debtor, against whom letters have been of no avail, is in Albany. At nine in the morning, Mr. Creditor dispatches Message Number One. He marks it "SER" 1. Arriving at his office, Mr. Debtor finds the telegram on the top of the pile of correspondence on his desk. No one refuses to open and read a telegram. Importance shrieks from the well known envelope. Let us assume, however, this Mr. Debtor in Albany is one of the 50% who "shrugs his shoulders" and

"files" the first telegram in the scrap basket. Mr. Creditor is wise to this type of procrastination. Before lunch Message Number Two of Mr. Creditor's Serial arrives on Mr. Debtor's desk. It calls attention to the first message, politely, but firmly, solicits a reply. Mr. Debtor is stirred. In mid-afternoon, or just before closing time, as no reply has been forthcoming, Mr. Creditor launches Message Number Three. The third telegram, stronger in tone than its predecessors, is brought to Mr. Debtor. Out comes the check book, the cashier's voucher is signed, or, at the very least, some definite action toward payment is taken.

And the *total* cost of the three messages sent from New York to Albany by Mr. Creditor by Serial Service only amounts to forty-seven cents, including tax. He has sent three messages, the first of ten words; the second, fifteen words; and the third, thirteen words, or a total of thirty-eight words. He could have sent, and, in fact he is charged for it anyway, one more message of twelve words, and still the cost would not have exceeded forty-seven cents, which is the charge for the 50-word Serial Service minimum. If he had sent the same three messages by fast telegram, the cost would have added up as follows: first message, 10 words, 26 cents; second message, 15 words, 37 cents; third message, 13 words, 33 cents; or a total of 96 cents, including tax.

Among other companies submitting sample messages they use in Serial Service for collecting delinquent accounts is G. Sommers and Company of St. Paul, Minnesota, also a member of the National Association of Credit Men. The three suggested Serial Messages used by this concern follow:

1. Your account twenty two thirty must be paid immediately advise soon today what arrangements being made.

2. Reply not received urgently request you advise today when payment will reach us.

3. Why haven't we heard from you will take drastic action unless satisfactory settlement made now.

An analysis of the cost of sending these messages further demonstrates the economies of Serial Service. For example, let us presume that G. Sommers and Co. is sending them from St. Paul to a debtor in Chicago. The base rate between Chicago and St. Paul is forty-two cents. The first message carries 16 words; the second, 13 words; and the third, 15 words; or a total of 48 words. Sent by Serial Service the three messages used by the St. Paul firm to collect from the delinquent in Chicago would only cost seventy-five cents, whereas if they had been sent as three separate fast telegrams the charges would have been $1.71 including tax.

Using the same messages between New York and Boston, the Serial Service charge would be only sixty-five cents, compared to $1.51, including tax, at the regular rate. Five ten-word telegrams between New York and Chicago cost $3.15, with tax, while the Serial Service charge is $1.76. Three 20-word telegrams flashed the three thousand miles across the continent between New York and Chicago would cost $6.15, while the same three messages sent by Serial Service cost only $2.58.

It is no wonder that credit men, alive to the value of saving money, are turning in increasing number to the use of Serial Service in answering stubborn collection problems. The table on this page will prove of interest to those wishing to gain some idea of the Serial Service rates.

There was never a time when credit men were apparently more interested in the general use of telegrams in collection procedure than they are today. This was plainly indicated when the writer, conducting a survey for Postal Telegraph, sent 100 telegrams to important members of the National Association of Credit Men requesting statements of their experiences in the use of telegrams in collecting overdue accounts. Replies were received from every credit authority addressed, and out of the total eighty-eight furnished details of successful uses of the telegram for this purpose. Messages which these prominent credit men have found productive may prove helpful to others.

The favorite form, for instance, of W. A. Ware, Credit Manager of Normandin Brothers, Los Angeles, California, is:

"PREVIOUS LETTERS IGNORED TAKING SHARP LEGAL ACTION MONDAY FINAL."

Mr. Ware states that this form brings

"quick response" continually.

"In one month," he says, "we collected on 98% of the telegrams sent. In many instances, the account was collected in full. A year ago, one telegram actually collected $2,000 for us and a few days after the check was received, the account went into the hands of the board of trade. One day more and we would have been too late."

J. W. Barron, assistant treasurer of the San Antonio Drug Company, San Antonio, Texas, advised that when letters fail to get results, "a telegram will almost always bring a response and is a good start towards making a collection."

"The best results I get from telegrams," he adds, "are those which ask questions and are definite, such as:

" 'WHAT DAY CAN WE LOOK FOR REMITTANCE ANSWER.'

" 'DID YOU OVERLOOK THE PAST DUE ACCOUNT HAVEN'T RECEIVED IT YET.' "

Some credit managers take the attitude that collection telegrams should make no direct reference to payment of accounts. The treasurer of one nationally known concern, for instance, who finds telegrams "very effective in collection work," submitted the following two examples, neither of which refers to past due accounts:

"DISAPPOINTED NO REPLY LETTER (DATE) PLEASE CO-OPERATE WIRE."

"HAVE YOU REPLIED OUR LETTER (DATE) IMPORTANT WIRE."

In the judgment of Warren A. Jeffords, treasurer of the American Lava Corporation, Chattanooga, Tennessee, "there is no doubt that a telegram commands preferential attention." But, he adds:

"It should be considerately worded and should not be sent collect. It never pays to antagonize a debtor unnecessarily."

Sample messages, hewing to this line, which Mr. Jeffords supplied, read:

"HAVE YOU SENT CHECK SEPTEMBER ACCOUNT PLEASE WIRE WHAT WE MAY EXPECT."

"MAY WE HAVE CHECK (AMOUNT) PLEASE COVERING ORDER AND ACCOUNT."

"HAVEN'T HEARD FROM YOU IN ANSWER LETTERS WON'T YOU KINDLY CHECK PROMPTLY."

"HAVE YOU MAILED CHECK BALANCE YOUR ACCOUNT AS REQUESTED (DATE) WIRE ANSWER."

"PROMISED CHECK NOT RECEIVED PLEASE MAIL TODAY SURE."

"HAVE YOU MAILED CHECK BALANCE YOUR ACCOUNT REPLY COLLECT PLEASE."

"WILL APPRECIATE IT GREATLY IF YOU WILL SEND CHECK TODAY."

It will be noted that many of the samples so far suggested request replies, and in this connection it is of advantage to credit managers to know that both telegraph companies permit the use of phrases requesting answers free of charge, providing the name of the telegraph company is included. Thus, there is no charge for such phrases as "Reply Postal Telegraph," "Answer Collect by Postal Telegraph."

When telegrams are followed up by telegrams 100% success has been obtained by one prominent credit manager who prefers anonymity. He frequently uses the following messages:

"CHECK NOT RECEIVED PLEASE ADVISE DISPOSITION BY WIRE."

"NOTE SERIOUSLY PAST DUE WHAT SHALL WE EXPECT ADVISE BY WIRE."

"We have found that checks are received promptly in 50% of the cases where these messages are used," he says. "If an answer is not received within a reasonable period, usually six hours, the message is traced and answers received 100%. After tracing a message, in about 80% of the cases the check is received and 20% bring a promise of payment on a definite date."

It is not the contention of this writer that telegrams should take the place of letters entirely in collection work, although we naturally incline to the opinion of W. L. Mackay, assistant treasurer of the Stone-Ordean-Wells Company, Duluth, Minnesota, who declares:

"I have found that a merchant will always open a telegram, whereas he won't a letter. Many a time I have seen letters piled up on customers' desks for a month or six weeks never opened, but a telegram comes in and not knowing where it is from, naturally he is going to open it right away. As a rule, telegrams are generally answered while letters are not. As a whole, we have had fairly good results, and where I want to get quick action I do not hesitate to use the telegram."

Probably a most logical form of procedure is that followed by F. W. Simmering, credit manager of Osgood and Sons, Inc., Decatur, Ill. This concern first sends a request by mail about two days after the bill is past due. This is followed up by a form letter in a week, and by a dictated letter a week later. These efforts are then supported by a telegram, asking for a reply to the last letter, and if the telegram does not bring results within three days time, the following day letter telegram is dispatched:

"WE HAVE OUR CHOICE OF FILING SUIT ON YOUR ACCOUNT OR COLLECTING WITHIN FORTY-EIGHT HOURS WILL YOU HONOR DRAFT FOR (AMOUNT) OR ARE YOU SENDING CHECK PLEASE REPLY BY WIRE TODAY GIVING BANK CONNECTIONS IF YOU PREFER DRAFT SETTLEMENT."

Mr. Simmering advises that his percentage on this class of collection effort runs between 70% and 80%.

A somewhat simpler rule followed by many credit authorities who employ telegrams extensively is that failure to answer three letters justifies a telegram, which unmistakably emphasizes that further procrastination cannot be tolerated.

In conclusion, herewith are listed a few more tested collection telegrams:

"UNLESS REMITTANCE REACHES HERE (DATE) LEGAL ACTION WILL START"—A. R. Wilson, Auto Equipment Company, Denver, Colorado.

"CLOSING BOOKS IN FEW DAYS WON'T YOU MAIL CHECK"—O. P. Meckes, Credit Manager, John Snowcroft & Sons Company, Ogden, Utah.

"URGENT WE RECEIVE IMMEDIATE AND FAVORABLE REPLY OUR LETTER (DATE)" "WE MUST HAVE REMITTANCE AT ONCE."—Globe Grain and Milling Company, San Francisco, California.

"We have been very successful in obtaining response from debtors who ignore correspondence by using this telegram," the Globe Grain and Milling Company advised. "We have also avoided payment of collection agencies' commission by use of a short telegram threatening legal action unless partial or full payment is received at once."

Where the 10 Word charge is	The Serial Service Rate will be First 50 Words	Each Additional 10 Words
.20	.35	.07
.25	.45	.09
.30	.55	.11
.35	.65	.13
.36	.65	.13
.40	.75	.15
.42	.75	.15
.48	.90	.18
.50	.90	.18
.60	1.10	.22
.72	1.30	.26
.90	1.65	.33
1.20	2.15	.43

Retail price trends

"Retail prices will continue to rise during the next six months, but the rate of increase may slow up . . . already such signs are evident."

by A. W. ZELOMEK,
Economist,
Fairchild Publications,
New York, N. Y.

At no time in the recent economic history of this country has there been as great an interest in the probable trend of retail prices as at present. It might be stated that without exaggeration our whole recovery program is closely tied up with this trend. It is hardly necessary for me to dwell at great length on the fact that a considerably greater advance in retail prices than in consumer income would jeopardize the chances of success of our recovery program. We need but to point to the increasing labor strife as an instance of the effects of a dislocation between income and expenses. At the same time, we cannot lose sight of the fact that we will have to contend with a group of our population who, peculiarly enough are at a decided disadvantage under the "new deal," due to their fixed income as against rising costs. However, this is a topic in itself, and is somewhat distant from my subject.

I am happy to state that it is much simpler to forecast retail prices at present than in the recent past. In my opinion also retail prices are more predictable than wholesale, particularly certain basic commodities in which I have been interested. As it appears to me, retail prices will continue to advance during the next six months. However, there is a possibility that the rate of increase, which has been gaining momentum since the May low, may slow up somewhat. In fact, it is already showing signs of slowing up in the ratio of increase.

We could hardly have expected the gain to continue in the geometric ratio, which was 1.4% in May, 2.6% in June, 5.2% in July, and 8.4% in August, according to the Fairchild Retail Price Index. Even with a slowing-up in the rate of increase, prices will have risen at least 25% above current (Oct. 1) levels by next Spring or by the end of April. This would bring retail levels at least 50% above the low recorded on May 1 of this year.

Although prices would be at the highest levels in more than three years, nevertheless, they would still be as much as 20% below the high of 1929 and preceding years, the 1929 level may be equalled in 12 months.

In this connection, it is both interesting and encouraging to note that the gain in retail prices and in general cost of living since the low point has been somewhat less than the gain in consumer income. However, the former has been advancing at a more rapid pace of late, which makes necessary a further improvement in industry and trade and thus greater dollar income, if we are to avoid a decline in the "real" income of the consumer.

If you think prices are rising pretty stiffly today glance down this table. It shows what people paid for common necessaries, as averaged by the Department of Labor for the whole country:—

	March 15, 1926 Cents	March 15, 1933 Cents	Aug. 15, 1933 Cents
Sirloin steak, lb.	40.7	28.2	30.2
Milk, qt.	14.0	10.1	10.9
Butter, lb.	53.6	24.8	27.3
Eggs, doz.	38.5	19.8	25.3
Bread, lb.	9.4	6.4	7.6
Potatoes, lb.	5.6	1.6	3.5
Sugar, lb.	6.7	5.0	5.6
Coal (soft), ton	$9.25	$7.43	$7.77

—N. Y. World-Telegram

I am certain that most of you would not be content in a mere statement as to what may be expected in retail prices during the next six months, but are interested in the reasons for my belief that a marked advance is probable.

It seems to me that, thus far, too much stress has been laid on only one side of the cost equation. In recent months, we have heard only the repeated argument of higher raw material prices and increased labor costs as justification for the advance in retail prices. All these discussions seem to have overlooked the fact that prices had declined to ridiculously low levels which threatened the continuance of industry on a profitable basis. Furthermore, greater consideration should be given to the component parts of the cost-of-living index, particularly in their actual and probable advance from their respective lows.

There is no denying but that the American family reaped the benefits of cheap labor, destructive competition and also unprofitable prices of farm products during the past several years. We find that the masses profited at the expense of the raw material producer, the laborer and the employer. Note, for example, that the low in 1933 for wholesale prices of food was 48% below, using the U. S. Bureau of Labor Index as a basis. Textiles declined 45% during that period. At the same time, the decline in commodities as a group was only 38%.

To go one step further, let us examine the National Industrial Conference Board Index of Food and Clothing. This, as you probably know, is an index of cost to the consumer. We note a decline of 44% in 1933 under 1929 for food, 41% for clothing, and only 29% for all commodities. Since the Administration is definitely determined to help the raw material producer and the laborer or wage earner, we naturally should expect a greater income from the low in these items, particularly in bringing these quotations back to a more normal competitive position.

We have accomplished this fact to some extent, although as usually happens, those who have profited by 59¢ men's shirts, 49¢ silk hosiery, $2.50 silk dresses, cheap butter and egg prices, etc., hate to give up this advantage. Since there is general justification for the advances in wholesale prices, we could hardly expect the retailer to absorb increased raw material costs and higher labor costs. The result, therefore, is higher retail prices. Since retail prices have already advanced about 25% from the low of May 1, the question is, what factors will influence still higher quotations and why?

In concluding that higher retail prices are practically a certainty, it is necessary to consider some of the following: In the first place, with the exception of cotton goods, the various codes have gone into effect only (*Cont. on p.* 38)

Ratios as capacity gauge

Second interview with Mr. Eugene S. Benjamin on his new book, "Practical Credit Analysis," in which he shows methods of applying his ratio formulas when making a study of a financial statement to determine "capacity to pay"; the use of the hypothetical statement makes this illustration of his method quite complete

The theory that six ratios should be studied when analyzing a financial statement, was presented in the November issue of CREDIT AND FINANCIAL MANAGEMENT, in an interview with Mr. Benjamin. The interview was based upon a review of Mr. Benjamin's new book "Practical Credit Analysis." *

Herewith are presented Mr. Benjamin's ideas as to the application of his method through the use of a hypothetical statement.

As pointed out in the November interview, Mr. Benjamin makes it quite clear that he does not consider the financial statement the only means of gauging credit but merely treats this subject as one of importance when taking up the general subject of "gauging the capacity to pay." Paying habits, the actual buying record, the moral risk and capacity information as provided by the credit interchange reports are given a very important place by Mr. Benjamin in reaching a decision on credit matters.

It will be recalled that Mr. Benjamin's method of analysis of financial statements is based upon the basic idea that the so-called "current ratio" of $2 in assets to $1 in liabilities does not present a picture of the situation the credit executive must see before he can intelligently pass upon the probable "capacity to pay" of the customer he is considering. Repeating from the November interview to review Mr. Benjamin's main points, he sets forth that the credit executive must check six other ratios found in a financial statement in addition to the so-called current ratio of assets to liabilities. These six ratios are:

1. Percentage of outstandings to sales. (Are accounts carefully collected?)
2. Turnover of merchandise in relation to sales. (Has inventory been properly depreciated?)
3. Percentage of quick liabilities to sales. (Is liquid capital large enough for business handled?)
4. Percentage of quick liaibilities to liquid capital. (Are loans used for capital deficiencies?)
5. Turnover of liquid capital as represented in volume of sales.
6. Turnover of merchandise as compared with turnover of liquid capital.

Now let us see just how Mr. Benjamin goes about the work of figuring these ratios. He points out in the first place that until we are able to determine the real value of the current assets, the "current ratio" plan leaves too much to guess work.

"This practice of the acceptance of the current assets at face value has resulted in the acceptance of a figure which represents the Working Capital *without in any way determining whether this figure accords with the facts,"* Mr. Benjamin pointed out in explaining the basic idea back of his method. "But if Receivables and Merchandise should be accorded their value in relation with their proper percentage to Sales, the credit executive will find in many cases that the statement of working capital must be discounted. Such a scrutiny of a financial statement takes the guess work out of the current ratio."

Is it essential to continue to use the Current Ratio? Mr. Benjamin was asked. "The answer to this question is that it is not necessary to use the current ratio as now practiced for the proper appraisal of a balance sheet for credit purposes because we have other and more determining ratios to use for that purpose. These are the ratios of Liabilities to Working Capital linked up with the ratio of Liabilities to Sales, which provide the essence of what a good credit man wants to know. This is a demonstrable fact because these ratios show the relation between what the business owes and is entitled to owe and the actual working capital which is available to meet its debts. It is in essence 'Gauging the Capacity to Pay.' "

This looks very much the same as the Current Ratio, what is the difference? was our next question.

"The difference is that we have not accepted the working capital as shown by the balance sheet, until we have proven the reliability of the figures from which it is the result."

How do you proceed to prove these figures?

"By allowing as a current asset only such proportion of the Receivables as is justified by the volume of sales according to the terms granted on sales.

"By allowing as a current asset only such proportion of the Inventory as is justified by the volume of sales."

This is apparently an arbitrary method; how do you determine the due proportions of Receivables and Inventory in any given trade?

"As to time Receivables, they have the same meaning and interpretation in every avenue of business; 30-60 or 90 days terms mean the same thing everywhere. Given the sales and the terms

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The credit job:

Mr. Benjamin says he does not presume to tell the credit men how or to what extent they shall pass credit. "It is his job and his responsibility to determine if Liability Ratios render the credit uncertain.

"The Operating Ratios give him the facts—he must make his decision not only on these facts but also on his judgment of the Capacity Risk.

"As to the Capacity Risk he can be greatly assisted by a study of Turnovers, because the Turnover of Working Capital when excessive demonstrates either an undue reliance on credit or speculative tendencies, or the straining to do a large volume to cover overhead."

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* *PRACTICAL CREDIT ANALYSIS, by* Eugene S. Benjamin. *Eugene S. Benjamin, 220 Fifth Avenue, New York, N. Y. 125 pp, 19 x 13½ mimeographed.* *$7.00*

EXAMPLE OF THE USE OF OPERATING RATIOS SHOWING CURRENT RATIO SUPPORTED

In order to demonstrate more fully the uses of Trade Standards, there is set up a hypothetical statement of a wholesale clothier with an analysis and with conclusions reached on each operating ratio, based on the 1923 Standard.

X. Y. Z. CORPORATION

Date November 30, 1924

Current Assets		
Cash	**125,000**	
Receivables	**875,000**	
Merchandise	**770,000**	
	1,770,000	
Non-Current Assets		
Plant and Machinery	**250,000**	
Total Assets	**2,020,000**	
Liabilities		
Notes Payable	**600,000**	
Accounts Payable	**170,000**	
Total Liabilities	**770,000**	
Gross Capital	**1,250,000**	
Liquid Capital	**1,000,000**	
Sales	**3,500,000**	
Net Operating Profit	**125,000**	
Current Ratio	**2.30**	**—Fairly proportioned**

OPERATING RATIOS

Receivables to Sales 25%**—The Wholesale Clothiers Standard shows that this is a fair percentage for that date. Very few houses show any larger percentage than this and most of them show a considerably lower percentage. It is listed as fair only because while this is a defensible percentage, it should not show up any greater without raising a suspicion that there is a certain proportion of slow paying accounts represented in this item. Notes Receivable are grouped together with Accounts Receivable. Attention is called to the fact that in the Clothing Trade notes are generally given for past due open accounts, and therefore a large volume of notes on a Clothier's statement must be viewed with suspicion.**

Merchandise to Sales 22%**—Fair proportion. This conclusion is based upon the average shown by the Standard. Many of its competitors show considerably smaller percentage. Due to present uncertain values of commodities, this ratio for 1931 should be one-third less for safety.**

Liabilities to Sales **22%**
Liabilities to Liquid Capital **77%—These two Operating Ratios should be considered together as they bear upon each other. A Clothier whose liabilities on November 30th are less than his liquid capital should be in a position to meet his obligations without undue bank borrowings and his liabilities to liquid capital are more significant than his liabilities to sales. It will be found that when the liabilities to liquid capital are as large as 100%, the Clothier is attempting to do more business than his working or liquid capital will permit, and that his volume is being done consequently upon the undue use of banking credit.**

Turnover of Liquid Capital**—The Standard shows that Clothiers who sell on regular terms can do a turnover of 3½ times their capital with profitable outcome and without undue reliance on bank loans. When they sell on shorter terms their turnover can reach 4½ times or even slightly greater. When the Turnover of Liquid Capital is greater than the Standard, the other Operating Ratios become highly important.**

Turnover of Merchandise**—The Standard shows that those Clothiers who turned over their merchandise more often than they did their liquid capital, made good profits represented in cash or receivables. When the turnover of merchandise was not in excess of the Turnover of Liquid Capital, it showed up in small profits, losses or top-heavy inventory still to be sold.**

Conclusion**—Current Ratio being fairly supported by the Operating Ratios, this Corporation should be a fair credit risk *as far as its statement is concerned***

Note**—If this statement were dated October 31st or December 31st, slightly different Operating Ratios would apply on merchandise and receivables.**

it is not arbitrary to penalize a business which shows outstandings in excess of these terms, when one is desirous of extending credit based on these Receivables being liquid.

"As to Inventory, a standard with full comparison with other businesses of same type and character is a definite way of determining the amount of inventory which a business is entitled to carry on the date of the balance sheet. When such a standard is not available a credit man should be able to estimate the outside allowance of inventory on which he can conservatively base his credit. There is a general turnover atmosphere surrounding all merchandise whether in a manufacturing, jobbing or retailing venture, and with the exception of raw products which have a quotable cash value, such as wheat, cotton, wool, silk, metals, etc., no inventory should be in excess of a definite percentage of the Sales, in order to accord it full value as a current asset. In all cases where standards are not available, nor comparison with previous balance sheets of the same client available, a credit man should be able to estimate the allowable turnover with proper liberality towards his client."

If then this plan of valuing a balance sheet and finding the real working capital in the business, is adopted and found to be satisfactory, are there any further steps to be taken before the extension of trade or bank credit?

"The answer to this is decidedly yes. We must also ascertain whether the applicant for credit is conducting his business conservatively in order to determine the likelihood of an unfavorable change in the conduct of the business.

"This brings us to a further discussion of the liability ratios, namely, the percent of Liabilities to Sales and percent of Liabilities to Liquid Capital, and the turnover ratios, namely the Turnover of Liqiud Capital and the Turnover of Merchandise in relation to the Turnover of Liquid Capital.

"In order to obtain the best results from the use of these Liability Ratios and the Turnover of Liquid Capital, it is necessary to first remodel the figures of the balance sheet by revaluing the Current Assets when *this appears to be necessary,* always being careful not to be over critical (as to the value of receivables and merchandise) and the result will show the true or real value of the Working Capital.

"Such revision of the balance sheet will probably result in a decreased Working Capital and an increased percentage of Liabilities to Sales and of Liabilities to Working (*Cont. on p.* 38)

N. A. C. M. pioneers

by J. H. TREGOE,
Past Executive Manager,
N. A. C. M., 1912-'27

Chapter Four: Formative Years

"This new outlook, new energy, new scheme of things had a foundation in the wider circulation of credit . . . the broader perspective furnished fuel for the Saturday night forums of the country stores."

The first leaf of the 20th century disclosed a new outlook to the public mind. The provincialism that had kept communities and industries ingrained with local pride gave way to a broader perspective, one that excited the imagination, exhilarated the acquisitive disposition, and furnished fuel for the Saturday night forums of the country stores.

Our first billion dollar organization, the U. S. Steel Corporation, was a creature of this new spirit; a new liveliness was discernible in the marts of trade; the inherent urge to make riches quick and the speculative fancy were again let loose.

It is but fair to say that this new outlook,—the new energy, the new scheme of things,—had a foundation in the wider circulation of credit, and the building of a banking power that loaned strength to capitalistic enterprise. Overcoming the former sluggishness of credit and adapting it to more pretentious ventures than had ever been dreamed of, was the vivid response to a technic that had been built by the initiative and long-distance thinking of the founders of our organization.

The foundation years had revealed sound construction principles; every stone was conscientiously laid and no deviation ever entertained or even thought of from the declaration of purposes set out in the association's constitution. These cardinal purposes have grown dim with the years, but we are apt to drift should they not be constantly freshened up and eternally defended as the chart of the association's course. These charter purposes constitute a classic and I quote them from the constitution:—

"The object of this association shall be the organization of individual credit men and of associations of credit men of the United States in one central body for the purpose of rendering more uniform and establishing more firmly the basis upon which credit in every branch of commercial enterprise may be founded, which shall include a demand for a reform of the laws unfavorable to honest debtors and the enactment of laws beneficial to commerce throughout the several states; the improvement of existing methods for the diffusion of information, the gathering and dissemination of data in relation to the subject of credit, the amendment of business custom whereby all commercial interests may be benefited and the welfare of all may be advanced; the provision of a fund for the protection of members against injustice and fraud, and such other subjects as the association may determine upon in a manner hereinafter prescribed."

In the midst of the newly awakened national interest and ambition, the association's pot was boiling. Its commercial and ethical utilities were growing in the public esteem; its foundation was proving strong enough to sustain a large and permanent structure of commercial service.

In the forepart of 1902, amending the National Bankruptcy Act held a forefront position in the association's activity. It was regrettable that the Act originally passed and after years of strenuous seeking, bore the impress of an agrarian sentiment that gave to commercial legislation always a hard row to hoe. The Referees in Bankruptcy organized along national lines and under the leadership of Mr. William H. Hotchkiss of Buffalo, N. Y., joined forces with our Legislative Committee in building up a sentiment favorable to the passage of the Ray Amendatory Bill. Around this bill raged the arguments of the irreconcilables to bankruptcy legislation; and when everything was set for the final test, June 17, 1902, a repeal bill first had to be set aside by a roll call of the House before the Ray bill was adopted by a majority vote.

Latent and potential ideas on important credit and economic problems, aroused by the pioneeer task of building channels for the safe circulation of credit, were offered an outlet in a monthly publication of the Business Literature Committee, an unadorned and very plain pamphlet entitled "Business Topics". This educational lever of the National Association in its youthful days attracted wide attention and collated in its pages expressions of opinion on the credit subjects of the day in a manner and with a directness that would challenge the thought of present day credit thinkers. They reflected a sturdiness and a courage which we can well emulate. Mr. Malcolm Graham Jr. of New York, who is unknown to the present generation of credit managers, was the pivotal power in this educational campaign and to those who knew him well, the memories of his personality and his clear ideas will be as lasting as life itself.

This period discovered that a number of the local units, organized in a weak fashion, with no strong control, were undergoing a knitting of their bones;—the underlying strength in many of the local outposts was discernibly improving. One of the very interesting croppings out of the fraternal and educational spirit was the dinner

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If

you have liked these four articles on N.A.C.M. history—and there are more to come—let us know whether you would care to have them compiled into a booklet at the publication cost of 50 cents. We've had several requests already. If enough are received we can go ahead with this idea.

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and traditions

meeting, that now became a fixed feature in many of the local bodies. At these meetings unusually strong professional addresses were offered and a community of interest encouraged. It was a social and educative venture into a practically undeveloped field, which blazed the trail for this type of meeting that was later to become so popular.

The administration of Mr. Young of St. Paul closed at Louisville, Ky., where the National Association convened during June, 1902, for its seventh annual meeting. The registration at this Convention was 219; the entire membership was reported by the Secretary to be 4,004, with 33 local associations. During the previous year, the expansive work had proceeded in fine fashion, and added to the roll of local associations were Atlanta, Columbus, Evansville, Grand Rapids, Lincoln, Los Angeles, Memphis, Omaha, San Francisco, Seattle, Sioux City.

No more helpful change had been wrought by the Association than the good faith and completeness of credit information. As it had been conducted in the days prior to 1896, no dependence, to speak of, could be placed on the information that passed between credit departments and it was for this reason above all reasons that commerce and finance progressed very slowly. With the expanding commerce so clearly discovered in the first years of the twentieth century, the direct flow of information between credit departments was unequal to the increasing demands for credit information, so at the Louisville Convention one of the forefront features was a report on this particular subject, which naturally was uppermost in the minds of many of the delegates.

The Credit Clearing House had proposed to the National Association a plan for conducting credit experience interchange in behalf of the Association's members. The proposal fell under serious consideration and the idea gradually emerged that the gathering and dissemination of credit experiences was a confidential procedure that should be controlled and conducted by the credit men's own organization. A Committee entrusted with a study of this subject offered its report at Louisville and in which the proposal of the Credit Clearing House was disapproved of; the Committee recommended the appointment of a committee of five to consider, to develop and submit a plan later for the organization of Interchange Bureaus by the local bodies.

The prosecution of credit crimes was a very prominent subject of debate at this convention; a small fund for the purpose had been raised and its administration entrusted to a department of the National Association. As indicative of the high position taken on this subject, the Investigation Committee earnestly recommended that members should not entertain credit transactions with any one whatsoever who had been implicated, directly or indirectly, in credit fraud.

Protecting credit by adequate fire insurance had not been systematically sought in the old days. The need of this protection as a help toward a safer circulation of credit was prominently brought out at the Louisville Convention. The debate on this subject could not be improved today for cogency and an intelligent comprehension of what the safety of credit demands.

The glance backward clearly reveals that when the National Association's sixth year had passed, there had also passed its experimental period; its muscles were visibly hardening, its self-assurance developing; the fact was indisputable that the Association had come to stay.

It sounds a little strange to the philosophy of today, but at this period of the Association activities, youth was not accorded the eminence that has since come to it so overwhelmingly. The writer, when considered for the President's office, aroused considerable opposition in a segment of the Convention by his youth; he was very much younger than the gentlemen who had previously filled the President's position. The elections in those days had a great deal of good humor attached to them, there had never been any acrimony or political wire pulling, so when the time for making a selection arrived, the opposing candidate, a man of excellent parts and high commercial position, retired from the contest and the writer was unanimously elected. Mr. George B. Pulfer of Detroit received the Vice-President's office.

Upon the recommendation of Mr. George C. Ford of Rochester who had occupied the position of Treasurer of the National Association during the preceding year, this office was joined to that of the Secretary and thereafter they were never severed. Mr. Prendergast was inducted into the dual position.

When the third leaf of the twentieth century was turned, 1903, there was an apparent subsidence of the speculative excitement that had brought losses to very many who had become intoxicated over the new outlook; a deeper interest in the industrial outlook fastened itself upon the minds of the people, the appeal of overnight riches gave way to the steady climb; there came this year a steadiness and a co-operation in our productive enterprises; that was the first gesture toward those powers that groomed us for the titanic task which came with the first (*Cont. on p.* 34)

The business

a compilation of business and

BUSINESS INDEXES: The Standard Statistics Company index of industrial production for the estimated period ending with November 1 shows a 11.8 per cent gain over the same period of 1932. However, the index at the close of October this year was 25.7 per cent below the peak figure of the year in July. The low for the year was registered in March. The July peak was 66.6 per cent. Fisher's index on November 11 showed a drop of two decimal points over the previous week but 11.3 per cent above a corresponding period in 1932. A rather sharp increase in the number of failures was reported during the week of November 11.

AUTOMOBILE TRADE: The seasonal let down in production before bringing out new models was indicated during the week of November 11. The index on October 28 was 33.1 while on November 11 it had fallen to 14.8. However retail sales have held above the production pace, indicating that dealers will be going into the new selling season with their floors cleared of old models. It is an interesting item in this connection that assembly lines in the plants of twelve companies were closed down during the week of November 18. The General Motors Company has already started advertising the important new features on its 1934 lines.

STEEL PRODUCTION: Iron Age reported on November 15 that steel production has apparently found a temporary level under present conditions. There has been a gain in some lines of production, such as full sheets for automobile production, but the average for the industry is about the same as a month ago, which is about 26 per cent of capacity. The big increase in automobile steel is not expected until late January, although some initial orders will be booked by mid-December. The impending orders for rails and rolling stock are not anticipated to affect the production schedules until after the New Year.

TEXTILE TRADE: The Daily News Record on November 21 carried several indexes of increasing confidence in the business situation. This authority stated: "There is unanimity of opinion among those who know the trades intimately that not in several years has there been registered such a feeling of hopefulness in the revival of profitable business, in the recognition by the consumer of style and quality—and in the money-making possibilities of the future."

CAR LOADINGS: For the week ending on November 15, total car loadings were placed at 537,000 as against a total of 607,000 for the previous week. One item of satisfaction, however, is found in the fact that the slump in the corresponding week last year was about 17,000 greater than this year. Traffic on the leading eastern lines accounted for most of the slump during the November 15 week.

Comment on Business

Automobile tire production is considered an excellent business index, so it is interesting to note that total figures for this industry as indicated in reports made by the Rubber Manufacturers Association to the Department of Commerce show that production is running about 3.4 per cent above last year. The year started off in January and February about a million castings below the corresponding months in 1932. In March, however, there was a decided upswing and by the end of April the index line had passed that of '32.

Output of pneumatic casings for automobiles totaled 25,394,000 tires from January to August, the last month for which complete records are available. This compares with an output of 24,552,000 casings in the same months of 1932. The outlook for the remaining months of 1933 indicates a production that will continue in excess of last year.

The peak of production each year occurred in June. In 1933, the increase in output from Spring to midsummer was more rapid than the corresponding increase in 1932. Further, the decline from the June peak was less sharp in 1933 than in 1932.

Retail collections improve

An interesting survey issued by the Department of Commerce during the month shows that the time consumers take to pay their bills is gradually decreasing. The survey covers the period from January through June. It shows a gain in collections in May and June. The summary of the survey says: "During May and June the open account collection percentages reversed their previous downward trend of the last three and a half years and showed increases over the same months of last year as well as over those of the preceding months of this year."

Other interesting features of the retail collection situation are included in the following:

"The collection percentages indicate that the average length of time open accounts receivable were outstanding—

thermometer:

financial trends and indications

that is, the average length of time the retailers' dollars were tied up in their open accounts receivable—was 82 days for the first 6 months of 1932 and 83 days for the same period of 1933. This slight increase in the average for the six months' period of this year is significant in itself, in that previous reports covering the period since January 1, 1930, have all showed greater increases. In addition the averages for the months of May and June of this year showed improvement over those of the same months last year. The average for May of this year was 79 days in contrast with 83 days for last year. The average for June of this year was 78 days in contrast with 84 for last year.

"The average length of time that accounts receivable are outstanding, or the turnover of receivables, as it is commonly called, is obtained from the collection percentage by dividing 30 days by the decimal equivalent of the collection percentage. Thus, if the collection percentage is 40 per cent, the turnover of receivables in days is 30 ÷ 0.40, or 75 days.

"The installment account collection percentage for all stores reporting was 13.5 per cent for the first 6 months of 1932 and 12.7 per cent for the same period of 1933. There was thus a decrease in installment collection percentages for the periods considered. However, during May and June, installment collection percentages reversed their previous downward trend of the last 3½ years and showed increases over the corresponding months of last year as well as over those of the preceding months of this year."

Possible Russian trade

Perhaps the most important event during the month was the recognition by the United States of the Soviet government which opens the way for a resumption of trade relations with that extensive market. It has been estimated that American export trade may be boosted by $100,000,000 or more through this new Russian trade.

In spite of the lack of official communication between the two governments, U. S. exports to Russia totaled $111,400,000 in 1930 and $103,500,000 in 1931, the records of the U. S. Commerce Department show. This business was built up from exports averaging $23,500,000 a year in prewar years. In 1927, the U. S. sold to Russia goods worth $64,100,000, while in 1928 the total was $72,500,000, and in 1929 approximately $81,500,000. In 1932, however, exports fell to $12,500,000, while this year the volume will not be more than $9,700,000, estimates indicate.

Germany and England are credited with having taken from this country some of the Russian trade, because both countries recognized the Soviet Government and granted financial credits.

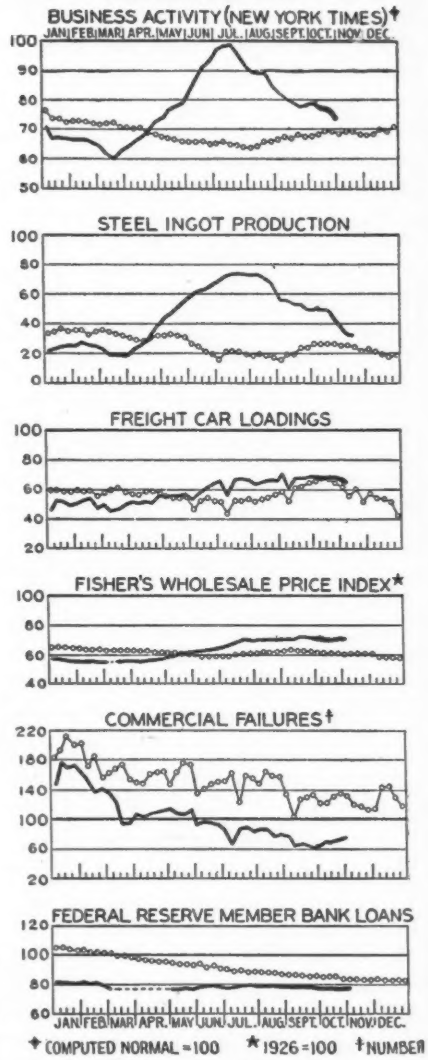
Rail line earnings

Class I railroads of the United States for the first nine months of 1933 had a net railway operating income of $340,973,877, which was at the annual rate of return of 1.78 per cent on their property investment, according to reports just filed by the carriers with the Bureau of Railway Economics. In the first nine months of 1932, their net railway operating income was $197,832,444 or 1.03 per cent on their property investment.

Gross operating revenues for the first nine months of 1933 totaled $2,298,099,370 compared with $2,337,623,354 for the same period in 1932, a decrease of 1.7 per cent. Operating expenses for the first nine months of 1933 amounted to $1,665,718,465 compared with $1,831,750,281 for the same period in 1932, a decrease of 9.1 per cent.

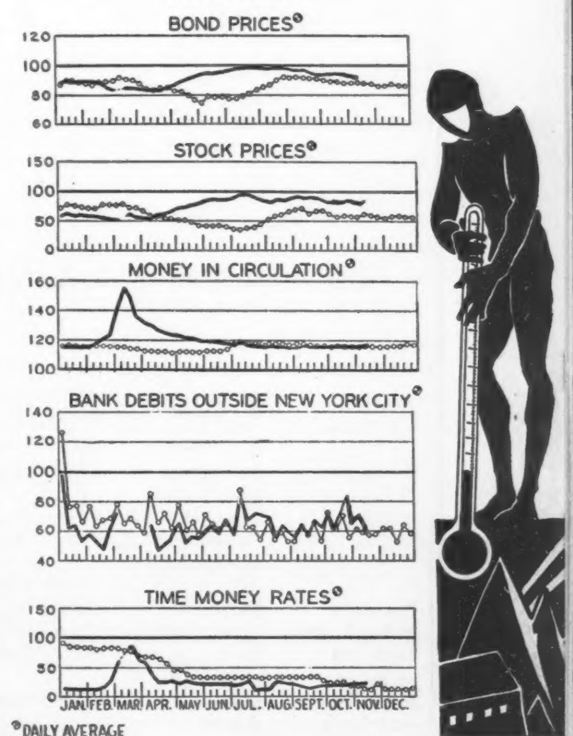
Class I railroads in the first nine months of 1933 paid $200,153,616 in taxes compared with $216,944,448 for the same period in 1932, a decrease of 7.7 per cent. For the month of September alone, the tax bill of the Class I railroads amounted to $21,746,668, a decrease of $1,501,750 under September, 1932.

Commercial



Dept. of Commerce charts, 1923-25 = 100

Financial



°DAILY AVERAGE

Score sheet of collection and sales conditions

State	City	Collections	Sales
Ariz.	Phoenix	Fair	Fair
Ark.	Little Rock	Good	Fair
Cal.	Los Angeles	Fair	Fair
	Oakland	Slow	Slow
	San Diego	Fair	Slow
	San Francisco	Good	Fair
Colo.	Denver	Fair	Fair
	Pueblo	Slow	Fair
Conn.	Bridgeport	Good	Fair
	Hartford	Fair	Fair
	Waterbury	Fair	Fair
D. C.	Washington	Slow	Slow
Fla.	Jacksonville	Slow	Slow
	Tampa	Slow	Slow
Ga.	Atlanta	Fair	Fair
Idaho	Boise	Good	Good
Ill.	Quincy	Slow	Fair
Ind.	Evansville	Fair	Fair
	Ft. Wayne	Fair	Fair
	Indianapolis	Fair	Slow
	South Bend	Slow	Slow
	Terra Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Fair	Fair
	Des Moines	Slow	Slow
	Ottumwa	Slow	Slow
	Sioux City	Fair	Fair
	Waterloo	Slow	Fair
Kans.	Wichita	Slow	Slow
Ky.	Lexington	Fair	Fair
	Louisville	Fair	Fair
La.	New Orleans	Fair	Fair
	Shreveport	Slow	Slow
Md.	Baltimore	Slow	Slow
Mass.	Boston	Fair	Fair
	Springfield	Fair	Fair
Mich.	Detroit	Fair	Slow
	Flint	Slow	Slow
	Grand Rapids	Fair	Fair
	Jackson	Fair	Fair
Minn.	Duluth	Fair	Fair
	Minneapolis	Fair	Fair
	St. Paul	Fair	Fair
Mo.	Kansas City	Slow	Slow
	St. Joseph	Fair	Slow
	St. Louis	Fair	Slow
Mont.	Billings	Fair	Fair
	Great Falls	Fair	Slow
	Helena	Fair	Good
Neb.	Omaha	Slow	Fair
N. J.	Newark	Fair	Fair
	Trenton	Slow	Fair

State	City	Collections	Sales
N. Y.	Albany	Fair	Fair
	Binghamton	Fair	Fair
	Buffalo	Fair	Fair
	Elmira	Fair	Fair
	New York	Fair	Slow
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Fair	Good
N. D.	Grand Forks	Fair	Fair
Ohio	Cincinnati	Slow	Slow
	Cleveland	Slow	
	Columbus	Good	Good
	Dayton	Fair	Fair
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Tulsa	Slow	Slow
Pa.	Allentown	Slow	Fair
	Altoona	Slow	Slow
	Harrisburg	Slow	Slow
	Johnstown	Slow	Slow
	New Castle	Fair	Fair
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Fair	Fair
S. Dak.	Sioux Falls	Fair	Fair
Tenn.	Bristol	Fair	Fair
	Chattanooga	Slow	Slow
	Knoxville	Fair	Fair
	Memphis	Good	Good
Tex.	Dallas	Fair	Slow
	El Paso	Fair	Fair
	Ft. Worth	Good	Good
	Houston	Fair	Fair
	San Antonio	Fair	Fair
Utah	Salt Lake City	Slow	Fair
Va.	Richmond	Good	Good
	Roanoke	Fair	Good
Wash.	Bellingham	Slow	Slow
	Seattle	Slow	Slow
	Spokane	Fair	Fair
	Tacoma	Fair	Fair
W. Va.	Bluefield	Slow	Slow
	Charleston	Fair	Fair
	Clarksburg	Fair	Slow
	Lynchburg	Fair	Fair
	Parkersburg	Fair	Fair
	Wheeling	Slow	Slow
Wis.	Fond du Lac	Slow	Slow
	Green Bay	Slow	Slow
	Milwaukee	Fair	Fair
	Oshkosh	Slow	Slow
Terr. Hawaii	Honolulu	Slow	Slow

Changes since last month's survey

State	City	Collections	Sales
Arkansas	Little Rock	Fair to Good	
California	Oakland	Fair to Slow	Fair to Slow
	San Francisco	Fair to Good	
Connecticut	Bridgeport	Fair to Good	
D. C.	Washington		Fair to Slow
Illinois	Quincy	Fair to Slow	Slow to Fair
Indiana	Evansville	Slow to Fair	Good to Fair
	Indianapolis		Fair to Slow
	Terre Haute	Good to Fair	Good to Fair
Louisiana	Shreveport	Fair to Slow	Fair to Slow
Massachusetts	Springfield	Slow to Fair	
Michigan	Flint	Fair to Slow	Fair to Slow
Montana	Great Falls		Fair to Slow
Nebraska	Omaha	Fair to Slow	Slow to Fair
New York	Albany		Good to Fair

State	City	Collections	Sales
New York	Buffalo	Good to Fair	
	New York		Fair to Slow
North Carolina	Charlotte		Fair to Good
Ohio	Cincinnati	Fair to Slow	Fair to Slow
	Columbus	Fair to Good	Fair to Good
Pennsylvania	Harrisburg	Fair to Slow	Fair to Slow
Rhode Island	Providence	Slow to Fair	
Tennessee	Chattanooga	Fair to Slow	Fair to Slow
	Memphis	Slow to Good	Fair to Good
Texas	El Paso	Slow to Fair	Slow to Fair
	San Antonio	Good to Fair	
Virginia	Richmond	Fair to Good	
	Roanoke		Fair to Good
Washington	Seattle	Fair to Slow	Fair to Slow
	Spokane		Good to Fair
Wisconsin	Milwaukee	Slow to Fair	

Collections stable, sales drop

ARIZONA: Phoenix reports the prospects for Central Arizona are much brighter. The public works administration under the N. R. A. has approved an $18,912,000 loan to the Verde District located in Maricopa County, of which Phoenix is the county seat. Benefit of the expenditures in this district will be felt in practically all parts of the state.

CALIFORNIA: Sales in Oakland took a slump after showing steady gains for several months. The food product lines in San Francisco show collections good. The retail department store furniture and apparel stores sales have declined in volume.

COLORADO: Denver reports sales spotty, but a pick-up is expected because of the Beet Pay days.

CONNECTICUT: The factory output in Waterbury has slowed up somewhat, with a consequent layoff of employees. Sales of necessities and collections continue very well under conditions.

FLORIDA: Jacksonville informs us there has been the very slightest pick-up in business.

GEORGIA: Colections in some lines in Atlanta are very good. Sales are running from fair to good.

INDIANA: Somewhat of an improvement is evident in both sales and collections in Evansville. Terra Haute reports some increased business and activity. It appears everyone is waiting to see what the N. R. A. will bring forth. Locally it seems that the distilleries and a new recovery will help things.

KANSAS: The short crops in Wichita have affected business and sales and collections are slow.

LOUISIANA: One section reports there has been a tendency to stop discounting, but bills are being paid when due.

MICHIGAN: Detroit has not experienced any noticeable change since last month. Sales in Jackson have dropped considerably during the past month.

MINNESOTA: A slight improvement in collections has been noted in Duluth, but not large enough to be classified as good. Business generally has slowed down. A survey conducted in Minneapolis indicates that retail sales have improved slightly. Two out of thirteen lines of trade report collections fair to good and sales good, seven report sales and collections fair and four report sales and collections slow. In the metropolitan area of St. Paul collections are very slow, with the country area showing fair to good. The Minnesota corn crop has been above average for ten years, with other crops below. A small agricultural area shows all crops much below normal and collections difficult. Most lines report sales as good, but hardware, auto accessories and leather hold sales in the fair classification.

MISSOURI: While sales continue slow in St. Joseph, an improvement has been noted since the weather turned cold. The farm unrest has affected business at many points.

Summary

This Month:

Collections:		Sales:	
Good	8	Good	8
Fair	56	Fair	55
Slow	38	Slow	38

Last Month:

Collections:		Sales:	
Good	4	Good	9
Fair	65	Fair	64
Slow	32	Slow	27

NEW JERSEY: Newark reports gains appear to be only seasonal. Conditions in Trenton are inclined to be very "spotty" in both sales and collections. Some reports are good in both departments.

NEW YORK: Buffalo. The wholesale credit report of the Bureau of Business and Social Research of the University of Buffalo indicates there was a rise in the ratio of overdue to outstanding accounts of 22 wholesale concerns in the Buffalo area from October 1 to November 1 caused by a 3 per-cent gain in the outstanding accounts accompanied by a 5 per-cent rise in the overdue accounts. However, there was a favorable drop of 6 per-cent in the ratio from November 1, 1932 as against November 1, 1933. This was the seventh consecutive month to register such a gain.

NORTH CAROLINA: Charlotte reports collections have not kept pace with sales and show a tendency to slow up. Sales have shown considerable increase during the past few months, but some decline has been noted at present, except on seasonable merchandise.

PENNSYLVANIA: Altoona is very hard hit. The shops of the Pennsylvania Railroad are working a little more each month, about twelve to fifteen days instead of eight, but winter expenses are heavier and no benefit is seen. The steel and coal production in Johnstown have lagged on account of the code differences and uncertainties.

TEXAS: Ft. Worth believes both collections and sales in the areas where plow up cotton money has been paid, and the cotton crop gathered and sold, are better than any period during the past three years. Especially is this true in West Texas and the Panhandle. Both sales and collections in the rural districts are much better than in the larger cities, which is due to the movement of the cotton crop. San Antonio shows an improvement over this period last year, with good prospects to the end of the year. The prospects after the first of year appear poor.

VIRGINIA: A seasonal improvement has been noted in tobacco sales in Roanoke.

WASHINGTON: There appears to be a decided falling off in business in Seattle in the past month. Both sales and collections in Spokane are fair, but falling off slightly.

WEST VIRGINIA: A slight pick-up in collection has been noted in Clarksburg. Sales show no improvement during the past six weeks. Very little improvement has been shown in collections in Parkersburg. Sales have increased slightly.

WISCONSIN: The milk and farm strike have affected both sales and collections in Green Bay.

What would inflation mean to insurance?

Some interesting points on insurance and inflation were brought out recently by Paul Tomlinson in Harper's Magazine:

"Everyone knows that a life insurance contract calls for the payment of a specified number of dollars. Many people are asking themselves nowadays if it is wise for them to buy such a contract when the purchasing value of dollars seems to be decreasing steadily. If prices are inflated, they say, money will be deflated and it will be better to own property, or to buy stocks, which can be sold later on for more dollars than they cost," he writes.

"This is a reasonable point of view, and on the face of things, a sound one. There is, however, another side to the picture.

"Life insurance is not only a protection, but an investment. The first essential of a good investment is safety. If inflation raises the price of farm products so that farmers can pay their mortgage loan interest and principal, that certainly will help the life insurance companies. If inflation raises the price of real estate and the life insurance companies can sell at a profit those properties they have been forced to take over, they will be benefited materially. If inflation raises the price of securities the life insurance companies, the largest investors we have, are going to be tremendously strengthened financially. If inflation puts men back to work and enables policyholders to pay back their loans the life insurance companies are going to benefit. If inflation brings back general prosperity, the life insurance companies will share in it, and anything which is done to increase prosperity makes for the greater safety of life insurance.

"The bulk of the companies' investments are in mortgages and bonds; like life insurance contracts they are promises to pay a certain number of dollars. These investments do not contain the possibility of speculative profits, but while they offer little chance of gain neither do they threaten their owners with any great possibility of loss. They guarantee the policyholder that the dollars he contracted for will be paid.

"Does all this mean that the dollars paid on a policy claim must always be cheap dollars and not inflated dollars? On the contrary. The maturing of a life insurance policy as a death claim, especially in the early years of its operation, brings about an inflation so large that its profits cannot possibly be equalled by the inflation in commodity and stock prices which it is presumed will follow the present proposed form of inflation.

"If a man pays a $50 premium on a life policy and dies the first year his beneficiaries will have a claim against the company representing an inflation of 2000% of each dollar he paid in premiums. If he dies within five years the percentage will be 400%; if within ten years, 200%. Does anyone think that commodity prices will show any such inflated value as this?

"If a man pays a premium of $20 a year per $1000 on life insurance it is interesting to calculate the advances that would have to be made in stock market prices in order to yield a dollar profit equivalent to the yield of the policy if it becomes a claim. If the claim were made at the end of one year, a stock selling currently at $100 a share would have to sell at $5000 a share to yield an equal return on the investment; to yield an equal dollar profit at the end of five years it would have to sell at $1000 a share. The stock market has responded to the injection of the inflation serum, but no one in his wildest dreams expects stock values to climb to such dizzy heights. On the same basis of comparison wheat would have to sell a year from now at $35 a bushel, hogs at $200 per 100 pounds, and cotton at $4 a pound.

"It scarcely seems likely that inflation will cheapen dollars to such an extent that wheat will, during the next five years, bring an average price of $15.98 a bushel, that U. S. Steel common will sell at an average of $10.39 a share, or American Tel. and Tel. at $20.83. Yet it is to these averages that prices must soar if the return on investments in the commodity and stock markets is to be equivalent to the return on a life insurance policy which becomes a claim during the first five years.

"Someone may object that these figures merely indicate that the holder of a life insurance policy must die within a few years to win. The objection is overruled. It is perfectly true that the purchasing value of dollars is subject to change while the number of dollars paid on a matured life policy are always fixed. Everyone knows elderly men and women, however, whose incomes have remained fixed for the past twenty years, and yet they have lived on a practically unchanged scale. The human element pretty well takes care of this problem, and it is a fact that as people grow older a dollar becomes increasingly valuable to them. And who knows that twenty years from now living costs may not be lower than they are today? History shows that while the price level is always fluctuating it remains fairly constant over relatively long periods of time.

"The flurry of inflation probably will pass. The possibility of untimely death is always present, however, and old age arrives regularly on scheduled time. No better protection than life insurance has ever been discovered. No better protection exists today."

So Quick

A lady who had just received an interesting bit of news said to her little daughter:

"Marjorie, dear, auntie has a new baby, and now mamma is the baby's aunt, papa is the baby's uncle, and you are her little cousin."

"Well," said Marjorie, wonderingly, "wasn't that arranged quick!"

"Can't Keep None in Stock"

Up at a northwestern lake resort is a general merchant who is a character. His store has a little of everything in it. A lady "resorter" found there a small artistic porch lantern. She at once bought it. Others came flocking to him for the same lantern. He ordered a few. They went at once. Finally, later, the tenth customer came for one.

By this time the merchant was "sore." No, he didn't have any, and what was more, he wasn't going to get any.

"Why?" she asked.

"Well," he said; "can't see no sense in gettin' the durned things. Can't keep none in stock. Soon's I order one, some woman comes in and buys it."

Injustice

Jones—so many people are struck by automobiles while alighting from trolley cars!

Trolley Official—Well, yes, but those people have paid their fares; it's this running over people who are waiting to get on that gets our goat!

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

WORLD ECONOMIC SURVEY. Prepared by J. B. Condliffe for the League of Nations. World Peace Foundation, Publisher, Boston, Mass. $2.00.

PRICES. By George F. Warren and F. A. Pearson. John Wiley and Sons, Inc., New York. $3.90.

In line with Francis Bacon's famed observation that some few books are to be chewed, swallowed and digested, this new volume from the League of Nations should be recommended as enough for a month's full course dinners.

Continuing the excellent start which he made in the initial volume along the same lines last year, Mr. Condliffe has again prepared a tome that is crammed with charts, analyses, perspectives and indications. Yet the editorializing content has again been deliberately and successfully held to a minimum. Here are facts. Mr. Condliffe "prefers to believe" nothing. He presents the record of the past year's economic trials and tribulations—compiled and charted with comprehensive clarity.

Obviously, any book published today which treats entirely with the course of events between the summers of 1932 and 1933, will not have the balanced perspective of a compactly conceived history produced after a reasonable time has elapsed. But the compiler of "World Economic Survey — 1932 to 1933" displays a characteristically English dispassion in his work and thus provides us with an authoritative account of the most critical twelve months of the depression period.

The focus of Mr. Condliffe's lens swings deftly from national developments to international complications without hesitation. The panorama is detailed, but not confusing. And within the borders of his picture are all the factors of prime interest: prices, production, wages, profits, public finances, international debts, international trade, tariffs, exchange policies, monetary and credit policies, banking difficulties, gold movements and the events leading up to the short-lived Economic Conference in London during the past summer.

With this book as a background of what-has-been, a study of the volume "Prices" by Warren and Pearson, which speaks of what-might-be, can more accurately be made. And with the Roosevelt Administration seemingly in sympathy with policies advocated in "Prices," as evidenced by the recent developments in gold buying, the study of these two books by business men is timely indeed.

If we are to have inflation of any kind, the problem of selling in a rising price market must be realized and met. What it implies in the adjustment of prices is obvious. What it means to the seller of goods who must replace his inventories at continually rising cost and, meanwhile, is waiting for his cash to come in from sales made at considerably lower prices than are prevailing in the present, has not been stressed enough.

Accordingly, inflation interests everyone, both from the business and the personal angles. And inflation through a policy of dollar devaluation is advocated by the authors of "Prices." They would devalue the dollar by regulating its gold content. The recently established policy of gold buying is believed to have been stimulated by Professor Warren and Professor James Harvey Rogers of Yale University, who has long been credited as leading gold authority. His "America Weighs Her Gold," was reviewed in these columns last year.

The basis of the Warren-Pearson theory is that we must have either a dollar with variable weight and fixed value or a dollar with fixed weight in gold and variable value. For years we have had the latter. He counsels a policy which it is claimed would achieve the former state. That would restore relatively stable purchasing power. Noone, of course, is opposed to stable purchasing power for the dollar. The opposition is questioning, however, the means, declaring that gold manipulation alone cannot achieve the desired end.

Fundamentally, the Warren theory rests on the same basis of Irving Fisher's compensated dollar which was advanced years ago. Mr. Warren's dollar is called the commodity dollar. It would be redeemable in gold, but the weight of the dollar would vary with the index number of wholesale prices of ALL commodities. "All" is the important word. Noone advocates the possibility of absolutely stable price levels. Human whims and nature's inconsistencies would prevent that. But, by averaging all commodities, there would be a relative stability. If average prices rose one per cent., the dollar would exchange for one per cent. more gold, and vice versa. The gold would remain in the Treasury in bars or in central banks.

"If we continue," Mr. Warren points out, "to allow our whole price and debt structure to be based on accidental discoveries of some one commodity or the accidents of demand for it, we should not be surprised to see the social system, that depends on that unstable medium of exchange, seriously threatened. The present revolutions and political upheavals are the direct and indirect results of a breakdown in the medium of exchange and, if such a monetary system continues, every investor, farm-owner, home-owner, and businessman should give first attention to the probable supplies of and demand for gold before he considers the details of his business."

That emphasis of Dr. Warren's on the demand and supply of gold is important to understand. Prices, he declares, are not based on the supply and demand of the one article in consideration. Rather,

the price of wheat, for instance, is determined by the supply and demand of wheat and the supply and demand for gold. With four variables, the possibilities of price troubles are apparent, providing you agree with the theory.

The Administration seems to be following that train of thought. So the theory will be determined a success or a failure much sooner than most theories get a chance to prove themselves. Meanwhile the rest of us can only stand and wait. —PAUL HAASE

Handy handbook

THE NATIONAL RECOVERY PROGRAM. By J. D. Magee, W. E. Atkins, and Emanuel Stein. F. S. Crofts and Co., New York. $.50.

The present administration's recovery program has developed with such long, swift steps that one's memory is greatly taxed to keep in mind the roads traveled and the steps taken. The Blue Eagle attracts so much attention that we are apt to forget many of the other aspects of the Roosevelt program.

Here in a short volume of 80 pages we have an intelligent interpretation of the Act itself as well as the complete NIRA text. Particularly pertinent are pages on the farm program and its background, which take up the second part of the booklet, and the sections on money, banking and finance which bring it to a close. —P. H.

Might sing it.—A postage-stamp in the Aztec language is *"amatlozuilolitquiticatlaxlahuila."* When with the Aztecs, don't write—telegraph.—*New York Evening Post.*

Loss rule may be modified

Possible modification of the fire companies' emergency rule delaying payments of fire losses in excess of $500 for a period of 60 days is indicated by a questionnaire sent by the National Board of Fire Underwriters to member companies asking whether the present rule should be changed and, if so, to what degree. A number of suggestions are offered and the companies are asked to indicate which they favor. The National Board executive committee meets Thursday, December 7, and desires answers by then from its poll of the membership so that decisions taken(*Cont. on page* 42)

What is cost?

(*Cont. from page* 13) Income Tax Law; interest on indebtedness; insurance; taxes; and other expenses necessary and incidental to the manufacture and sale of the product. After a uniform cost accounting system shall have been adopted for the industry, such system shall be used by all manufacturers who are members of the industry in allocating the above items of cost on specific products.

One might go on interminably quoting provisions from code after code, bearing upon the prohibition of selling below cost and the definitions of cost computation, but the only effect would be to confirm the following conclusions:

1. That there is nothing inherent in the interpretations of requirements of the N.R.A. to change the basic factors of cost determination which have heretofore been acceptable from a sound accounting viewpoint.
2. That any code prohibition against selling below cost is meaningless unless the term "cost" is carefully defined and unless some provision is made as to the methods and principles of computing costs.
3. That there appears to be too little knowledge on the part of industry as to what constitutes proper cost determination, and too vague a conception of the detail and complexity of proper cost finding systems.
4. That industry is rather lightly writing into its codes provisions on cost and accounting which will be extremely difficult and expensive of fulfillment, and which may in some instances be unwarranted.
5. That many code provisions as now formulated will be impossible of attainment and will not accomplish

either the intent of the act or the desires of the industry.

This last conclusion is particularly true in view of the attempt to so greatly extend unit cost determination to include selling, general and financial expense, in an effort to build a cost which will be directly comparable with the selling price. Industry would do well to realize that cost finding has a far greater value than that of providing some basis for the determination of selling prices. The use and the results of an effective cost system provide management with a dependable means for securing more effective operation, for eliminating wasteful and uneconomic procedures, for promoting high individual efficiency, for better meeting competition, for currently securing information on plant operations, and generally, for maintaining control and for developing sound business policies. It is true of course that as management is provided with more dependable knowledge through improved cost and accounting procedures, this knowledge will be reflected in prices, and may go far in eliminating vicious price practices which have prevailed in the past.

The code provisions which prescribe the use of uniform industry accounting and uniform cost finding systems thus will be of immense value to business as they are made effective, but required selling prices should not at the present moment be too closely allied to the costs which might thus be determined. I believe that a more practical method is required to fit the immediate need for some degree of price regulation, and to bridge the interval before dependably calculated costs are attainable. The method that was developed in the formation of the lumber code seems to fit this requirement. It specifies the power of the code authority to set minimum selling prices which shall serve as a cost protection, these prices being for the present based upon such cost information as is available, but eventually being related to the costs secured through use of uniform industry cost methods. Since the code authority includes several government representatives, there is some assurance that the minimum selling prices determined will be such as to protect the interests of the consumer public. This is a rather practical method of preventing vicious price cutting, and recognizing the fact that it may be some time before the industry cost finding systems provide complete or dependable figures for control purposes. I look for an increasing use of this form, rather than acceptance of what has heretofore been the usual phrase "not to sell below cost." The oil code also follows this trend in price control, and several codes use the method of clearing all price lists through the code authority, as being an immediately applicable means of avoiding wide price swings.

One of the main stumbling blocks in the path of proper code development has been the Governmental fear of anything that sounded like price fixing. Despite the waiving of the anti-trust laws during the life of a code; despite the strong control exercised by having Government representatives on the various Code Authorities; and despite the announced fact of a new conception of control over industry, the old bug-a-boo of monopolistic price fixing still casts its shadow of fear.

It would seem desirable that frank recognition be given to the fact that cost recovery or cost protection is the desired aim. But in avoiding code phrasing which might *sound* at all like price fixing, sanction has been given to code provisions prohibiting "selling below cost" which, if they could be made effective, would lead to a more positive and less controllable price fixing than anything heretofore known. The incoherence and inconsistency of many of the submitted codes is less the fault of the industry code committees than it is of the inhibition against a frankly clear recognition of principles.

I do not want you to feel that I am being overly critical in this discussion of certain phases of the industry codes which have been and are being formulated. American business has had suddenly thrust upon it the necessity for accomplishing in a few months a task which, in a process of normal evolution, might not have been brought to completion in the next twenty or thirty years. It is faced with a new era, in which some of the old principles of individualism and self-interest must give way to principles of cooperation and public interest. We are a young nation and have much to learn. The changes in industrial structure which are being brought about by what we believe to be the pressure of an internal emergency may shortly be highly beneficial in enabling the nation to meet the pressure of international industrial competition. It is difficult for this country to know or understand the changes which war and post war conditions effected in the international coordination of the great European industries.

Briefly, my point is this: that an era of industrial change is upon us, in which many of our previous concepts must be modified, not only as a national matter, but also as an international necessity. The first step is cooperation among businesses in an industry. The second step is cooperation among industries from a national viewpoint, wherein the public interest takes precedence over individual self interest. Accompanying these changes in viewpoint and action must come the improvements in operating effectiveness which are partly the by-product of release from destructive competitive practices, and partly the result of improved records of operations.

Many business men feel that they have been caught up by a tidal wave which completely alters all of the former trends of industry, but my belief is that there has been no radical change in trend. Rather, the pressure of necessity has resulted merely in a surge or intensification of the trend which has existed for the past several decades, and which has been manifested in the growing use and importance of trade associations; which was misapplied in the nineties in our use of trusts; which permitted the strong recent trend toward consolidation and combination in business; but which has not been really understood or properly developed in any of these manifestations. Now we are close to the truth that business exists as a service to mankind and cannot prove superior to humanity.

The Act may not accomplish 100% of all that its sponsors intend, but it fosters the step forward, both socially and economically. The natural trend of business in this country has been steadily toward better wages and shorter working hours, and the Act merely serves to accelerate the tempo of this trend. Similarly it aids the existent trend toward industrial cooperation and control. Man progresses by experimentation and out of our first crude efforts come the eventual practical result. I have confidence in the capitalistic system which has made this the greatest nation in the world. I have confidence in the courage and ability of our people, in whom the energetic, pioneering strain is still strong. And I have confidence in the principles of humanity which have been developed by a period of adversity and are not being forgotten in our new progress toward industrial rehabilitation.

A SUGGESTION

Patient: "I understand fish is good for the brain. Can you recommend anything special?"

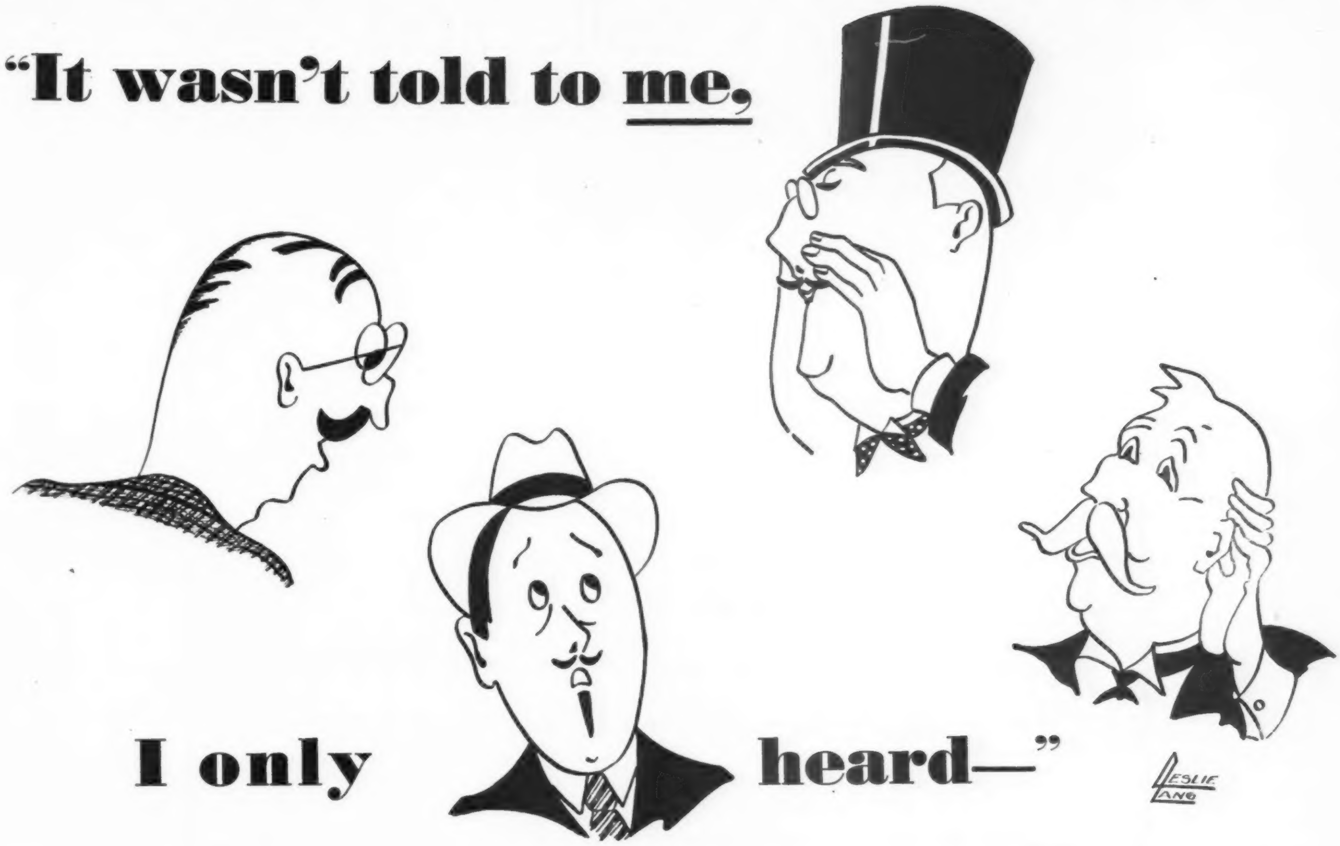
Doctor: "Well, you might begin with a whale."

EASILY MISSED

"They've put the price of beans up at my restaurant. Have they at yours?"

"No, but I've noticed lately that they leave off a bean."

"It wasn't told to me,



I only heard—"

EVERYWHERE you hear the same old theme song these days: "*It wasn't told to me, of course, I only heard, but they do say that* . . ."

Yes, yes—there's plenty to be heard if you're listening but a whole lot less to be credited if you're wise. Rumor, hearsay, gossip. They're as all-inclusive as the late (but not lamented) depression. And just as bad for business, i.e. if you base your business operations on chance. Though most folks don't.

And *they* are the wise ones—the fellows with high collection ratios, low loss percentages, fewer frozen accounts, more rapid turnover. It's no secret either, this accomplishment of theirs because . . .

Every executive whose work touches upon sales or credits or collections uses the CREDIT MANUAL for handy reference. In 1934 he will do so more than ever before because . . .

Every phase of a sales or credit transaction, from the receipt of the order until its final disposition, has a legal background and a potential legal complication. The 1934 MANUAL will interpret these implications for it classifies and clarifies all Federal and State laws and regulations. And it is trustworthy because . . .

Every section—such as Bulk and Conditional Sales, Chattel Mortgages, Filing requirements, Mechanics Liens and a score more—has been accurately revised.

Also included is the full text of the new Bankruptcy Act and "orders in council" and a complete list of all Bankruptcy Referees and Federal Judges. In these days of moratoria, the knowledge of your rights as a creditor must be down-to-date.

You should no more depend upon obsolete versions of the law today than you would upon last year's calendar, daylight saving time or star gazing. Sign the coupon below and mail it TODAY.

Credit Manual of Commercial Laws

$4.00

NATIONAL ASSOCIATION OF CREDIT MEN, One Park Ave., New York, N. Y.
I would like to receive a copy of the 1934 MANUAL. Please send it at once.

Name ....

Firm ....

Street .... *City* ....

"This month's collection letter"

by H. BOLSHAW, Manager, Credits and Collections, The Western Union Telegraph Co., New York

TELEGRAM

In the interest of economy and to avoid any series of collection letters I am taking this means to make a frank appeal to you for payment of our account . Please be equally frank about this request and send your check now.

"I have been reading with considerable interest the 'pros' and 'cons' regarding the various types of collection correspondence brought out by comments on the 'This Month's Collection Letter' series and I seem to feel that a quick and frank request for payment of past due accounts is the most sensible treatment of the subject. If debtors could be educated to understand that all collection letters, no matter how courteous, novel and unique they may be, are merely an outside dressing of the phrase, 'We want our money' and respond accordingly, many thousands of dollars would be saved annually in correspondence expense," Mr. Bolshaw writes.

"There are many of us that may feel that a ten word telegram compels a curtness that is objectionable to their feelings in the matter, however, this can be generally overcome by the use of the fifty word night letter along the lines shown here, which all telegraph companies handle for the same price as a fast ten word day message. Night letters are delivered in ample time to receive the immediate attention characteristic of telegrams at the start of each business day. Remember, only one message is necessary for a telegraph company accompanied by a list of your debtors.

"The thousands of testimonials we have received explains the reason for the ever increasing volume of this class of messages and by the use of the night letter another effective collection medium is available."

Supplementary to any collection letter efforts there should be reliance on Credit Interchange reports. With interchange reports before you on each of your accounts, you will attain maximum effectiveness in using the collection letters presented here.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT AND FINANCIAL MANAGEMENT.

A selected series of individual copies of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT is available upon application. Apply to Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

Old Masters

Sittin' pretty, eh?

THE top: a hard climb and a grand view—but a quick drop if you slip. And some of the best have been known to slip.

Without any intention of going pep-talkative, may we point out that a firm grasp of fundamentals is essential if you would climb without the hazard of the slip being ever-present? Of course, we can't guarantee a non-slip performance but we *can* help you *improve* your chances of sittin' on top of the world.

We speak of fundamentals and we *stress* fundamentals because the basic principles of business today are credit principles. And credit principles are the entire scope of N. I. C. courses. Without sound credit, there could be practically no business; without a sound credit training, there can hardly be sound credit operations.

Reasonable?

We feel you'll agree with us that it is. And once you've become acquainted with the course in Credits and Collections of the National Institute of Credit, we know you'll realize more completely, perhaps, than ever before the scope and importance of a credit background in modern business.

Matriculate today. The coupon below is for your convenience. Remember—there's more than one chair at the top and more than one aspirant for it. Improve your chance! We'll be pleased to help you. And what's more, we know we can.

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NATIONAL INSTITUTE OF CREDIT, Dept. 12, One Park Avenue, New York.

Please send me details of your NEW course in Credits and Collections.

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"Knowledge is Power"

Movie Actress—I'll endorse your cigarettes for $50,000.

Executive—I'll see you inhale first.

—"*Lacma News*"

Pioneers and traditions

(*Cont. from page* 21) clash of arms in Europe.

Within Association circles there was a constancy of movement discernible at this period, the responsibilities of intelligent credit control was recognized as a necessary companion to the industrial forward movement; the Association was doing its very best to direct public thought along constructive lines.

Obtaining the consent of the Senate to the Ray Amendatory Bill was a prominent feature in the forepart of 1903. The effort was strikingly persevering and with final success, the Senate approved the House Bill and President Theodore Roosevelt added his approval to this amendatory measure on February 5, 1903. When this important task had been disposed of, then the Legislative sights of the association were directed toward the credit protection of state laws to regulate the sales of stocks in bulk. This type of legislation had to contend with many difficult barriers, there was a small army of irreconcilables who didn't want to give up the easy and safe method of making money by selling stocks in bulk and then fading away. The persistency of the local units in this campaign was splendidly expressed, and the obtaining of state laws went steadily forward. It isn't possible to estimate exactly, but this safeguard to credit integrity as pointed out in the former chapter, and for which the National Association was singly responsible, has saved capital from being chiseled annually of many millions of dollars.

One of the significant developments at this time was the first public expression of interest in legislation that would make less difficult the prosecution of intentional falsehoods in the drafting of financial statements. This interest pointed directly to the later enactments of the False Statement Acts in most of the states.

The income and outgo of the National Association were still of modest proportion and didn't overtax the time of the Treasurer, but Mr. Prendergast was very alert in these days to the general order of the Association and to keep the growing child from being trampled upon by numerous service companies, which sought either to attach or be attached by the National Association. The constructive work of Mr. Prendergast in these days of growing pains cannot be over-estimated. The impress he gave the organization helped it mightily in later days. There was a growing demand for field work, interest appeared here and there in the Association's activities, and to meet this opportunity squarely the National Directors appointed Mr. F. J. Stockwell to field duty and to carry the title of Assistant Secretary. Mr. Stockwell served the organization in this capacity for many years. One of his first trophies was the reorganization of the St. Joseph Association; this local body was first organized in 1896 but fell apart over an internal dissension on bankruptcy legislation; it remained dormant until Mr. Stockwell furnished the regenerating touch.

It is interesting to see the question arise in this formative period on the protective and economic value of insurance against credit losses. Superficially, the idea possessed an attraction, but when resolved into all of its parts, the idea as an Association policy never passed beyond the period of debate. It furnished an interest but nothing more.

St. Louis was chosen for the convention city of 1903; as the period in June approached for the gathering of the clans and to stage the Association's eighth annual meeting, the Mississippi River went on a rampage and the high flood crest prevented the movement of trains into St. Louis from the East. This formidable barrier diminished the attendance, but there was interest enough with those who attended to carry the program through with a real exhilaration and without a snag. The Association's widening vision and protective purposes could be recognized with even greater clearness now, and which the present reader can find in the proceedings of the Convention.

Every little danger to credit fairness and to credit integrity was gradually coming under heavy attack. The inequalities of state exemption laws, the improper deduction of discounts for cash, charging interest on past due accounts, a further emphasis on the importance of adequate fire insurance and even the improvement of our consular service were alluded to in the debates and questions of this convention. The prosecution of credit crime, bulk sales legislation and the organization of local bureaus for credit interchange were among the star features of the proceedings.

The membership of the Association had shown a marked advance during the

preceding year, it totaled 4,628 and local associations had been set up in Lynchburg, Youngstown, and Wichita. At the St. Louis Convention "Business Topics" was abandoned and thereafter the "Credit Bulletin" would be the National Association's official publication.

Another pleasant rivalry took place over the President's office. The same good spirit in the contest of the two nominees prevailed and finally the writer was elected for a second term, with Mr. Richard Hanlon of St. Louis in the Vice-President's office.

The early months of 1904 found considerable activity in the local associations for organizing Credit Interchange Bureaus. The idea had met a popular demand and the meeting of this issue squarely carried out one of the cardinal purposes of the organization. At this time there arose a new opposition to the National Bankruptcy Law and seven repeal bills appeared in Congress. It was a quantity movement, however, there could be discerned a decrease in the intensity of the opposition, and the bills were easily suppressed. Bulk sales legislation was going forward with encouraging results, one by one the states were giving this protection to receivables.

An epochal development in the forepart of 1904, was the first public suggestion for a department to conduct friendly liquidations. The proponent of this constructive idea offered it in the most earnest fashion and his audience soon discerned that an idea had been advanced which would mean a saving to capital.

After doing a splendid piece of work in behalf of the National Association, Mr. William A. Prendergast resigned the Secretary-Treasurership to accept a flattering offer from a new enterprise. The resignation was accepted by the President and he then appointed for the dual position, and subject to later official approval, Mr. Charles E. Meek of New York City.

As expressive of the initiative that prevailed with many of the local Associations, and a strong fibre in their organization, the Baltimore Association of Credit Men jumped into the breach, when its city was devastated by a destructive fire early in 1904, and led in the building of a new spirit and a new Baltimore.

New York City was the host of the ninth annual meeting of the National Association of Credit Men; the opening session convened on June 15th, 1904. In his address to the Convention, the President said: "The Association is no longer a theory but an established and an acknowledged fact." The spirited proceedings of this Convention were another evidence of the Association's continuous growth and its occupancy of high places in the commercial affairs of the nation.

During the preceding year, the membership had advanced to 5,327, an association had been organized at Richmond. Early in 1904 through the field efforts of Mr. Stockwell local units had also been set up in Savannah, Knoxville, Duluth and Birmingham.

The utility and economy of Standard Statement and Inquiry forms was stressed at the New York Convention. With stirring enthusiasm the recommendation was unanimously made that the local associations proceed promptly to the organization of Bureaus for friendly adjustments and liquidations. The seed was planted at this point which later sprouted in the National Interchange idea. Bureaus to conduct systematic and complete Credit Interchange were again emphasized as most important. Punishing the transmission of false financial statements through the mails was urged as a needed corrective National policy.

The Secretary reported at this Convention that the Central Fund for prosecuting credit crimes had been exhausted, the recommendation followed that his corrective and sanitary work should thereafter be carried on by funds raised and administered in the local associations. While debating this subject, a new delegate to the National meetings, Mr. D. S. Ludlum of Philadelphia, announced the first extradition for a credit crime since the eighteenth century.

The entertainment provided by the New York Association was very generous and the program included a trip by steamer to West Point; it was an all day affair and a session of the Convention had been planned on the trip north and in the salon of the steamer. The Committee had chartered for this journey, the "General Slocum", a commodious and popular excursion craft. The day set for the trip was June 16th. On the afternoon of June 15th, this ill-fated craft was gutted by fire while carrying a large excursion party and hundreds of adults and children lost their lives in the holocaust. This tragic affair cast a gloom over the Convention. The Committee chartered another steamer, the original plan was carried through and the events of the day will long be remembered by those who had the hardihood to go.

At New York the writer completed a two years' term as President of the National Association and the selection of a successor resulted in the first unpleasantness that had attended the election contests of our Conventions. Mr. F. W. Standart of Denver and Mr. Richard Hanlon of St. Louis were nominated for the position, the contest ran very high but finally resulted in the selection of Mr. Standart, with Mr. F. M. Gettys of Louisville in the Vice-President's office.

The early months of Mr. Standart's administration were marked by a heavy attack on bulk sales laws and upon constitutional grounds. No policy of the National Association and the local bodies was fought so bitterly and over every inch of the ground as this protection to credits. The Bulk Sales Laws of Ohio and Utah were held to be unconstitutional by the highest courts of the two states. This set-back merely stiffened the fighting qualities of the organization, and wherever a breach occurred there was always an effort mobilized to repair it.

The close of 1904 found the formative years of the National Association of Credit Men had passed successfully every opposition and organized effort to prevent legislative protection and systematic control of the credit circulation. The fighting qualities of the organization were wonderful, and the formative period ended with the bones of the organization knitting together solidly and preparing its active proponents for a bigger work ahead.

The commercial failures were found to be declining at this period, the annual liability column not exceeding $150,000,000. The output of industry was responding to the new impulse and the broader credit circulation, it had now reached nearly fifteen billion dollars for the year, an increase of 30% in four years, and an increase of fourteen times in 54 years.

The country possessed the largest gold stock in its history, approximately a billion, two hundred and fifty million dollars. The banking institutions had expanded to over nine thousand with total deposits of approximately six billion dollars. The annual turnover of checks had passed the eleven billion mark, that was an increase of 50% in the brief period.

Everything was set for a wider swing throughout the financial, commercial and credit enterprises of the nation.

No hero he.—Sambo was hired on a railway gang. At the close of the first shift he was tired and sought the boss.

"Mister, yo' sho' yo' all got me down on the pay-roll?"

"Sure," said the boss. "Here's your name—Sambo Simpson. That right?"

"Yes, suh," replied Sambo. "Ah just thought you might have me down as Samson."—*Literary Digest.*

Notes About Credit Matters

Overbuying apparent

Returns of cotton, woolen and silk goods by small manufacturers in the women's wear field who ordered heavily from jobbers in anticipation of a boom fall season have reached such proportions that credit men are carefully checking up on the status of their jobbing accounts, with particular attention to the cash position, inquiry in the market indicates, says the "Daily News Record."

The situation is admitted to be so complicated that no hard and fast credit rules can be applied to it. Credit departments of the larger commission houses say they have received few, if any, returns or cancellations, but point out that the jobber, whose chief market is the small capitalized small manufacturer, has been getting a considerable number of returns.

This condition, it is explained in credit circles, is due to the fact that the small operator in the dress field rushed into the market with heavy orders in the hope of getting into operation prior to the rising cost period of the N. R. A., in anticipation of reaping a profit from anticipated heavy fall buying. However, the expected buying did not develop in many cases and the average small women's wear manufacturer has found it difficult to move his merchandise.

It was pointed out that many manufacturers are doing a nice business at good profits but that the little fellow has been unable to make the grade so far as disposing of his merchandise is concerned. They are attempting to make returns to the jobber from whom they bought or to cancel orders now in hand for future delivery.

In the men's wear field conditions are reported as being substantially better so far as returns or cancellations are concerned.

However, even in the men's wear trade credit men say there appears to be a growing tendency to hedge on the acceptance of goods ordered for late November or December, and some requests are said to have already been received to delay delivery until after the first of the year in order to see whether business is going to improve or fall off.

Thus, credit departments point out, in judging the stability of the jobbing accounts today there must be taken into consideration the amount of which the middle-man may have over bought, either in anticipation of heavy orders, or with actual orders in hand, many of which are now being cancelled.

How to cut crops

How to reduce mid-West crops is a problem. Here's a solution relayed by T. E. Reynolds, St. Paul, Minn.

"A bright minded hunter of pheasants is said to have suggested to Washington that, since this popular bird does little damage to crops, except to devour the seed at time of planting, the government might consider this bird as the means of bringing about crop reduction, and, instead of taxing the consumer—which may lead to less consumption—the better thing to do would be to stock all high production areas with these birds. This would result in a large supply of delicious meat for both urban and rural population, and largely increase employment in the manufacture of fire-arms, ammunition, automobiles, gasoline, sport goods and what-not. Then, if the government will permit the public sale of these birds, and under the law give the land owner the right to profit by the killing and sale, the revenue derived will compensate the owner of the land for his loss in government subsidies, afford him a profit, and at the same time relieve the consumer from burdensome taxation. (We have not heard that a special session of Congress will be called to put it into effect.)"

Christmas bonus plan

E. H. Heller, chairman of the membership committee of the Louisville Credit Men's Association, has announced a Christmas Bonus plan as an added impetus in an intensive drive for new members. A bonus of $5 in cash is to be paid on December 20 for each new Associate or Interchange member brought into the Louisville association by present members. The bonus also is to be paid to any member who converts an Associate membership into a Credit Interchange membership. The announcement of the Christmas bonus plan was made in a neatly printed folder of one sheet on the first page of which appeared full information about the membership drive and on the reverse side was printed a list of some 300 prospects.

A good credit risk

A small bank, centrally located in the university city, Cambridge, Mass., in connection with some small transaction, forwarded under its president's signature the customary letter to a new customer's regular bankers in another section of Cambridge, asking for references and confirmation of that new customer's credit. The small bank's credit received the following prompt reply:

"Mr. O. M. W. Sprague has been our client for many years and has always had our confidence in his integrity and credit. Mr. Sprague holds the Edmund Cogswell Converse professorship of Banking and Finance at Harvard and has served as professor of economics at the Imperial University in Tokio. In 1930 he went to London where for two years he was financial adviser to the Bank of England and he is now chief economic adviser to the United States Treasury. We consider him a reliable client in every way."

A look forward

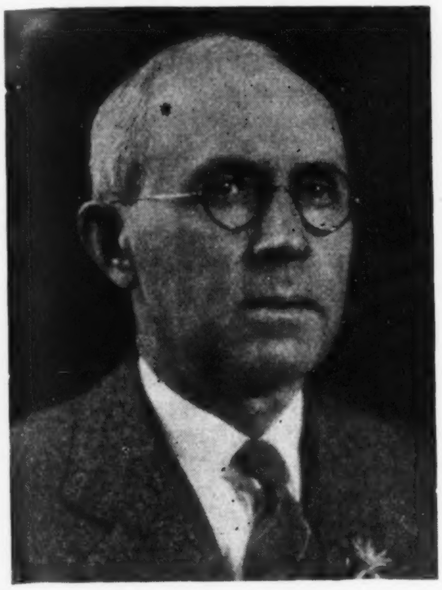
An article on The New Deal appeared recently in "The Budget" of the Maryland Casualty Co. It was signed with a familiar name—J. H. Tregoe. Here it is: "More heads are wagging in the country today than at any other period of the nation's political history.

"The head motion reflects the human and very general interest in the 'economic revolution,' than which there is no more fitting term to designate the unique and determined attack of our President on unemployment and badly frayed buying power.

"There is sufficient electrical energy in the unfolding of the "New Deal" to stimulate the gray matter and challenge the judgment of the people.

"Branching at right angles from the old established industrial order and financial economy, it is natural to find some heads shaking in dubious uncertainty—others in complete doubt—that the plan will work. It is good sense in this situation to lay (*Cont. on next page*)

Credit careers



Henry G. Barbee

Henry G. Barbee was elected president of the Norfolk-Tidewater Association of Credit Men at the recent annual meeting of the organization in celebration of its twenty-fifth anniversary at Lynch Anchorage, Willoughby Beach, and thereby started on his twenty-sixth year of service to that organization. He was one of its founders and has served either as president or chairman of its board ever since.

Other officers elected at this meeting were O. O. Witherspoon, vice-president; Mahood P. Hardy, secretary, and J. J. Cannon, treasurer. These officers and the following will serve as the executive committee: Paul L. Joyner, Robert S. Johnston, J. Galanidis, O. J. Parker and W. K. Neville.

Mr. Barbee was the first president of the association when it was organized in 1908, and he served continuously in that capacity until 1922 when he was elected chairman of the board. He served in this capacity from 1922 until this year, when the office of chairman was abolished and he was asked to serve as president.

This group was the first big organization in Norfolk to inaugurate a weekly noonday luncheon more than 20 years ago, and has continued this practice.

J. P. Abernethy, secretary-manager of the Richmond Association, was the principal speaker. Mr. Abernethy paid tribute to the high standing and effectiveness of the Norfolk-Tidewater Association during its 25 years of operation in the interests of better business practices.

Mr. Barbee's record is unique in the annals of the National Association. No other official of a branch has served so long in a similar capacity. He formerly was a member of the national board of directors.

In starting on the twenty-sixth year of his service and of the association's work, Mr. Barbee urged all members to continue the consistent, efficient work of the association and expressed the feeling that better times were not far ahead.

Installment credit charges

The suggestion that retailers selling on installment terms should tell the customer what he is paying for installment credit as frankly as the dealer states the price of the merchandise was made by the Consumers Advisory Board of the National Recovery Administration recently at the finance company industry code hearing.

"There is no implication," the representative of the Consumers' Board said at the hearing, "that installment rates are too high. The suggestion is made merely against concealment of the rates for the use of money in such transactions."

Sales-credit cooperation

J. M. Rust, Vice-President of the National Association of Credit Men, and A. A. Normandin, President of the Los Angeles Association, were the guests and principal speakers at the meeting of the Sales Managers Association of Los Angeles, held recently.

The subject discussed was, "How to Increase Sales Through Cooperation With the Credit Department."

A look forward

(*Cont. from page* 36) aside our doubt and carping, and at least help with good will and cooperation to give the experiment an honest-to-goodness test; if the scheme does not work, then the President will undoubtedly be the first to acknowledge that it does not.

"No denial can be made to the palpable fact that something has happened in the past few months to change the face of our condition; the movement upward of prices and production attest a change of spirit, for up to the present, inflation has been made possible by law but has not been applied. The most important element in human welfare, morale, was badly smashed in the debacle of three years, and the regeneration of this human power has changed the attitude of peoples, spruced up the dejected men, cleaned rusted machinery, put briskness into our walk and replaced fear with confidence.

"The spring-back must not be too sudden or unthinking; recovery plans, to be stable and satisfying, must comprise the consumer. The larger and better spread of income must have as a corollary a steady and reasonable circulation of the buying media, so that production may be maintained without unprofitable accumulations. No doubt the anticipation of higher prices and higher costs under the Industrial Recovery Codes has speeded up production in many fabricated lines, and the digestion of these accumulations constitutes a problem in the present order of things that must not be discounted.

"I believe the objectives of the President will be closely, if not entirely, reached, but the duration of the improvement will rest upon the manner in which the better income and buying power will be used. The most extensively used buying power in our present economy is Credit, and the vital question is—what will the forty million users of credit in our country do when their credit abilities are enlarged by better incomes and steady employment?

"The same low type of morality that characterized our trading in the late twenties would wreck in a few years the new prosperity, and engulf us again in an economic deluge. Thoughtless spending and speculation, laxities in positions of financial control compelled us to take a severe thrashing. Credit as a buying medium was severely abused, and the defaults on credit obligations in 1932 forced an economic loss of a billion and a half dollars.

"Our destinies are in our own hands Not only can we attain the better things our President is working for but their permanence will depend upon the moral control and the good sense with which these better things are used and guarded. 'The morning after,' has been too often the experience of our country following in the wake of speculative and thriftless debauches. The last lesson was unusually harsh—and may its chastening lead us to be co-operative in winning, and prudent in using, the blessings we have lacked for many years."

Give credit to credit!

by RAYMOND V. WALL

Most trying, indeed is the task of the Credit Executive to please all in the proper extension of Credit. Many concerns or their officers and stockholders seem to place the entire responsibility for the conditions that exist, in many cases caused by the improper extension of credit granting, on the shoulders of the Credit Executive.

In extending Credit the usual investigation is made regarding the risk of the purchaser and even though credit reports indicate to the Credit Executive that risk is not a good one to sell, certain factors enter into the picture that may change his mind, competition for instance.

Competition is supposed to bring about a lower price, still maintaining a quality product, all through increased production. Today we see what has happened, mostly caused by overproduction and—the improper granting of credit.

We are all entitled to survive in this world of ours but some manufacturers did not have this thought in mind when they were establishing sales quotas.

The Credit Executive of this year is looked upon by his company, officers and directors and salesmen, as an important part of the business administration and his opinions and advice will be given far more consideration in the future, than they were in the past. Had business leaders heeded the conservative words of their Credit Executives when sales quotas were being smashed and production being stepped up, our period of depression through which I hope we have about passed, would not have been quite so long or so painful in a financial way of speaking.

Correct methods of merchandising, a closer regard for your competitor, full use of your Credit bureaus—for a good complete credit report is of great importance—the taking of advice from your Credit Executive will enable us all to reach a state of normalcy—soon.

Retail price trends

(*Cont. from page* 17) recently. Many producers protected their accounts by giving them the advantages acquired through intelligent buying. We have definite information that leading piece goods manufacturers gave early protection to their men's clothing accounts. At the same time, and in the same way, leading clothing manufacturers protected their distributors. Retail levels today reflect also the wise operations of the leading retail organizations, particularly the largest. Furthermore, the small independent who has had an accumulation of stocks for a period of years is liquidating at comparatively low levels in the desire for additional income to purchase new merchandise.

We have also another factor, which is probably as important as any, namely, the desire of the Administration to raise prices still further, particularly raw materials. After all, there are certain basic items, notably agricultural, such as dairy, which have shown only slight advances from the low. This is true also to some extent of corn, and some livestock. Yet here is another thought of interest—and that is, while it is true that wholesalers may have marked up items due to labor costs, this may not have been sufficient because of an•adequate cost system. At the same time, probabilities as to the additional cost of distribution must be considered, particularly with the retail code going into effect shortly.

We may find that, instead of a reduction, as we thought, there may be an increase in distribution costs. There are additional factors that I could mention as reasons for a continued advance in retail prices, but it seems to me that those I have enumerated are sufficient to justify my belief that we cannot avoid still higher prices, at least 25%, during the next several months.

Before I conclude, I wish to say a word with regard to the possible consumer reaction to the higher prices which, incidentally, will be felt more and more in the next few months. Frankly, the possibility of a buyer's strike in the near future does not worry me. In the first place, the abiding faith of the American public in the Administration will tend to minimize the expected reaction when the "pocketbook begins to be pinched." Secondly, the educational campaign since undertaken will bear some fruit. The last and really the most important consideration is that while prices will be high next Spring they will be only at the 1929-30 levels which, as far as clothing is concerned, would not be excessive. I am not unmindful of the need for educating and impressing upon the consumer the reasons for the higher prices, and his part he plays in the recovery program in paying these higher quotations. This will be necessary very soon if we are to avoid marked consumer resistance to retail mark-up later on.

Ratios as capacity gauge

(*Continued from page* 19) Capital.

"I trust I have made plain the reasons for doing away with guess work as represented by the Current Ratio, and using more definite and determining ratios.

"It will probably take many years before this can be accomplished but that should not deter us from diligently putting Operating Ratios into use.

"At first the Analyst will use some amount of time, due to his inexperience but as he grows used to the work, it will become easy and then the analysis of an ordinary statement will not consume more than 10 to 15 minutes—an extraordinary balance sheet will consume more time, but the contingency which calls for it will be well worth the time given to it. Only one man in an organization should prepare the analysis; the others should of course be fully posted as to the meaning of the various ratio percentages.

"The preparation of Standards occupies the interim time of the Analyst, the study of these Standards and the decision as to acceptable ratios must devolve on the Head of the Credit Department.

"The blind adoption of the general averages which are ascertained from a Standard, should be avoided, as one or more statements in it may affect these averages unduly.

"The averages of average businesses should give the acceptable operating ratios. Any averages obtained from a Standard as to the necessary Current Ratio or as to the necessary Working Capital, should be avoided."

Just another bawling out.—JUDGE—"The traffic officer says you got sarcastic with him."

MR. NAGGER—"But I didn't intend to be. He talked to me like my wife does, and I forgot myself and answered, 'Yes, my dear.' "—*Pathfinder.*

Superhuman faith.—"How did you come to raid that barber's shop?" the dry agent was asked.

"Well," he replied, "it struck me kind of funny that such a lot of fellows should buy hair restorer from a baldheaded barber."—*Boston Transcript.*

Sorry she spoke.—"How did you get that black eye, Mrs. Higgins?"

"Well, sir, me 'usband came out of prison on 'is birthday."

"Yes."

"And I wished 'im many 'appy returns."—*The Humorist.*

"How-not-to" Department

A jewel is added to our portfolio of anti-collection letters. Quoted below is a reply to a demand for payment for an invoice of cosmetics. After reviewing an alleged over-charge the debtor propositions as follows:

"I am feeling like to sue you for refund of money, but the law of capitalism wouldn't protect poor fellow, so will not fight unless you start trouble on insisting upon balance of $50 of our account, and we believe you can easily forget the balance and acknowledge the New Order."

We welcome the opportunity of spreading such rays of sunshine as Credit Managers run across in their daily correspondence. If you have any contributions, send them to us.

—*"Lacma News"*

"How-to" Department

1 Merchandise your collections. Don't just send a series of duns; build your collection series from the point of view of your debtor; sell him the idea of paying.

2. Don't allow accounts to grow old. Most dead and slow accounts were "good" when they were opened; start your collection effort at ten days rather than sixty.

3. Don't whine. Money is seldom paid because a delinquent feels sorry for his creditors.

4. Stand by your statements. You weaken subsequent collection efforts by fruitless threats. The threat is rarely advisable; when made, it should be carried out.

5. Make your collection letters build good will. Keep ever in mind that an average 80% or more of the business of most firms comes from customers already on their books.

6. Know your customers. The more you know about your customers, the easier it will be to collect money from them.

—*St. Louis Ass'n News*

Nannette—I caught my husband flirting.

Jeanette—That's how I got mine, too.

—*"Lacma News"*

Competition and depression

(*Cont. from p.* 11) contributing factor in the general total situation which brought the depression on. The great obstacle under modern industrial conditions to the operation of competition as a beneficial system of checks and balances and automatic adjustments is the expensiveness combined with the permanence of our modern plant equipment. On the one hand this leads inevitably to the building of plants by means of large-scale borrowed capital and on the other hand throws the most serious obstacles in the way of reducing the production capacity of an industry as a whole in a period of reduced demand.

Where there are no obstacles to hinder resort to destructive competition through discrimination and discounts, the possibility of pursuing these practices holds out a delusive invitation to expansion and over-building. Since expansion and over-building in turn stimulate improper competitive practices of the kind described, we are presented with a vicious circle from which there is no escape, save by proper regulation and control of such competitive practices.

I submit that the proper regulation of competitive practices, especially practices relating to secret prices, price discrimination, discounts and other types of discrimination, will do much towards eliminating forces and tendencies which in normal times, as in times of depression, tend to drag down and depress industry, lower the (*Cont. on page* 41)

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Reservation clause upheld in bankruptcy

The U. S. District Court for the Southern District of New York has upheld the clause in a life insurance policy reserving to the insured the right to receive cash surrender values, dividends and etc., without the consent of the beneficiary. Frequently doubt has been expressed whether policy values are protected under Section 55a of the New York Insurance Law where they are expressly reserved to the insured and not to the beneficiary. This decision now upholds the insured on this question, "The Eastern Underwiter" reports.

In this case the trustee in bankruptcy for Benjamin G. Canariato claimed the cash values under a policy the bankrupt held in the Mutual Life which contained the specific reservation above referred to. The referee in bankruptcy, Henry K. Davis, decided against the trustee's contention. The trustee appealed to the U. S. District Court and on September 21 Judge Woolsey affirmed the decision of the referee.

Commenting on the decision, which he regards as of considerable importance, Attorney Albert Hirst, counsel for the New York Life Underwriters Association, says:

"Life insurance attorneys and life insurance men will feel that this decision is eminently sane because, of course, the right to change the beneficiary, for all practical purposes, embraces every other right under the policy. It is gratifying that the law recognizes this practical construction.

"The decision of Judge Woolsey seems to me to be of great importance as, unquestionably, many thousands of policies are now outstanding containing language identical with or similar to the language used in the Canariato case.

"It must be remembered, however, that the District Court is not a court of last resort. In spite of the judge's well known reputation for learning and the good reasoning behind his opinion, from the point of view of protection of life insurance policies against creditors' claims, I would prefer not to see clauses like the one in the policy under discussion inserted in life insurance policies or applications. I fail to see the necessity for them and fear that in other courts different and less favorable results may occur."

Huge automobile accident loss

Faulty driving of the American motorist last year incurred damage amounting to one-fifth of the total value of all the automobiles produced in the United States. This fact has been made public by the Automobile Departments of the Fidelity-Phenix and the Fidelity and Casualty Companies of the "America Fore" group.

This estimate, it was explained, is an extremely conservative one, covering automobile production, and losses paid by the insurance companies as a result of accidents during 1931.

Claims settled for auto liability, collision and property damage totalled more than $163,764,000, approximately 21 per cent of the wholesale value of motor vehicles produced in the United States, points out "The Insurance Advocate."

Moreover, it is pointed out, that while the production figures are complete, the losses from accidents are far more than indicated, because of the great number of cars which are not protected by insurance.

"In many cases," says Vincent L. Gallagher, Secretary, "the vehicles which are the most hazardous to property and life, by reason of age and disrepair, are the ones whose owners are not insured. The tremendous damage which these machines inflict is not included in the figures given."

Of the losses paid by insurance companies in 1932, by far the largest part went for liability claims, which amounted to more than $132,000,000. Collision insurance accounted for more than $7,774,000, and auto property damage for over $23,829,000.

"The financial losses can be visualized," said Mr. Gallagher, "when it is recalled that they were as great as if reckless drivers were waiting at the factory gates, and deliberately destroying every fifth car which was produced for the United States and Canada."

He believes the accident toll can be reduced by continuation of the campaign of education for drivers and pedestrians, as well as by stricter supervision of automobile highways and greater care in issuance of licenses.

Arizona law unconstitutional

According to the Phoenix Republic, Attorney General Arthur T. La Prade has given the State Corporation Commission an opinion in which he holds that sections of the agents' qualification and licensing law (Chapter 86, Laws 1933) is unconstitutional, says the New York Journal of Commerce.

That newspaper does not make it clear whether the opinion relates to any other provision of the law than that providing, among the qualifications required of an applicant for an agent's license the following: "If a resident of a city or town of this State of 5,000 population or more that he or she is principally engaged in the insurance business, and if a resident of a town of less than 5,000 persons, that he or she is engaged in the insurance business.

The opinion of the Attorney General states that a Supreme Court decision in New York had held a similar provision in a law in that State unconstitutional. The provision in the Arizona law is more obnoxious, the opinion said, to the constitutional requirements of equal protection than the New York statute, in that it limits this qualification to persons residing in cities or towns of 5,000 or more.

"If a requirement that an agent be principally engaged in the insurance business before a license may be issued is necessary for the protection of the public in cities of 5,000 population or more, it would seem to me to be equally necessary in cities or towns of less than 5,000 population," he concluded.

The truthful tombstone

Tombstone dealer (after several futile suggestions): "How would just a simple 'Gone Home' do for an inscription?"

Widow: "I guess that will be all right. It was always the last place he ever went."

Competition and depression

(*Cont. from p.* 39) price of raw materials and drive down labor standards. The elimination of these practices by bringing price into the open and rendering it subject to the normal operation of the law of supply and demand will tend to maintain a reasonably compensatory figure for all those producers whose output is essential to satisfy demand and will do much toward making it impossible for marginal producers who should be eliminated to survive and drag down their more efficient rivals.

The problem of compensatory price, in price at least equal to cost of production, can I believe be trusted very largely to take care of itself where a condition of open and non-discriminatory competition is scrupulously maintained. In other words, under such a condition there is no need for embanking upon the dangerous and uncertain practice of pegging prices.

In my own opinion it is permissible for competitors at any time to regulate their competitive practices for the purpose of eliminating those types of practices which destroy and render abortive the normal working of competition as a beneficial system of industrial self-adjustment. I believe that a sound construction of the Anti-Trust Laws, based upon the decisions of the Supreme Court, and particularly upon the recent Appalachian Coal case which reaffirmed the Chicago Board of Trade case, places no obstacles in the way of concerted self-regulation of this sound and desirable kind. In the present period of the depression concerted action of a more drastic character may be necessary, particularly in view of the overbuilt condition of many of our industries.

The over-expansion of plant which occurred during the period of the boom challenges serious attention in the interest not merely of the industry itself, but of labor and the producers of raw materials. Each industry has its own special problems connected with the special set up which it has developed, and it is only within the body of each industry that enlightened proposals can be devised to meet those special problems. It is, therefore, the industries themselves which have the primary responsibility for devising ways and means to restore themselves to a sound basis; but since obviously the point of view within each is truly restricted to the problems and interests of the industry itself, it is essential that industrial cooperation to eliminate the special evils of over-expansion must be subject to a wise Governmental control which will take into account not merely the needs of the industry itself, but the interest of the whole nation in maintaining a prosperous and smoothly functioning industrial system. *Originally presented before U. S. Chamber of Commerce.*

Dollars, debts and doubts

(*Cont. from page* 7) required either to give gold on the spot or an order for gold in one of the financial centers, chiefly London or New York.

There are certain dangers about the gold exchange standard that make it undesirable, except, perhaps, for relatively small countries. Great commercial centers should always have physical control over their own gold reserves and consequently maintain their gold holdings within their borders. The danger of the gold exchange standard lies in the fact that it attempts a dual support; viz., maintains currency and credit conditions in the countries that have deposited the gold in foreign centers, as well as in the country of deposit. Should the country of deposit encounter financial difficulty the country owning the deposit races for quick withdrawal with consequent deflationary effects on the gold holding nation. The experience of England in this respect is too recent and well known to need repetition. England did not want to leave the gold-bullion standard; gold exchange nations forced the step.

There is still a variation of the gold standard known as the gold reserve standard, which tends to relieve gold of all its functions except the duty to serve as a reserve. The object of these gold reserves is to maintain public confidence.

In view of these technical distinctions you may well inquire, when is a country on a gold basis? The answer can be generally given by saying when it has the *capacity* and the *willingness* to meet its obligations in gold, unit for unit. When it ceases to do this, it is off the gold basis.

I stated that the gold standard is not perfect. As a matter of fact, there is no such a thing as a perfect standard and there never will be since human beings can not devise a perfect monetary standard. Gold is a commodity and the same law of supply and demand which affects the prices of other commodities affects the price of gold. True, it is a commodity chiefly set aside for a special purpose; that is, to serve as a medium of exchange and a basis for credit transactions, but its strictly commodity values vary. This is important in deferred payments but to avoid it you would need a command over the general range of commodities that would insure the same price level year in and year out. The commodity dollar advocates attempt something of this kind—but that will be discussed later. The fluctuation in gold as a commodity, however, is less violent than in any other conceivable commodity. This is due to the relative scarcity and imperishability of gold. It is the very reason why through the period of years gold has evolved as the best commodity to serve as a medium of exchange.

But how about the supply of gold. The press is full of accounts of the inadequacy of the gold supply. What effect does the supply of gold have on prices? With reference to the supply, it is a fact that if we produce more we shall need more money, or an *acceptable substitute* by way of sound credit, unless prices are to fall, and generally if we issue more money, prices will rise unless we produce more goods. If the supply of money is increased and the volume of transactions remains unchanged, prices rise, and conversely under the opposite circumstances prices fall—assuming, of course, constant (*Cont. on page* 43)

Loss rule may be modified

(*Cont. from page* 29) may reflect views generally held.

Suggestions for changing the 60-day loss rule as presented by the National Board to members follow:

"1. That the limit on claims to be promptly paid be raised from an aggregate claim of $500 to an aggregate claim of $1,000; and

"2. That the National Board be used as a medium for considering other claims which might be paid promptly with the consent of all interested companies, such cases to include the following:

"(a) Where hardship and privation actually will result from deferring payment.

"(b) Where satisfactory evidence is produced that repairs to a building insured have been completed prior to the expiration of the contractual or statutory period.

"(c) Where property of the same insured, whether involved in the claim or not, is insured in whole or in part with companies or associations not members of the National Board or those not supporting the National Board's recommendations as to time or loss payments.

"(d) Losses on public, municipal, religious and charitable institutions, including hospitals.

"(e) Losses occasioned by exposure.

"(f) Use and occupancy claims.

"(g) Where very unusual conditions exist which would seem to justify consideration, as, for instance, a question involving a disagreement among companies as to apportionment, which in nowise reflects on the integrity of the claimant but which delays the execution of a proof of loss.

"In a discussion of the subject before the executive committee reference was made to the National Board's circular letter of March 15, 1933, wherein it was stated that no change in such resolution will be considered by the executive committee at any meeting unless the membership of the board shall have been duly advised. Accordingly the executive committee voted that the membership be informed that the question of modifying our previous recommendations in respect to the deferred payment of losses would be considered at the next meeting of the executive committee, which will be held on December 7, 1933.

"It will assist our committee to have an expression of opinion from each of our members, and, in order that all may comment on the same general questions in respect to this subject, we would appreciate your advices on these three specific items outlined here:

"1. Do you favor a continuance of the present recommendations?

"2. Do you recommend a modification, and, if so, to what extent?

"3. Do you favor the National Board's acting as a medium for considering other claims than those to which the present, or a modified, recommendation may apply?

"Of course you understand that we shall be pleased to have advices on other phases related to this matter."

First letter psychology

(*Cont. from p.* 8) will not earn a reply that will add one iota to that which you already know. It won't build any friendship—it won't create any desire for further business with your company. While it may not do any harm—it certainly won't do any good—for the customer, for your salesman, for you or for your company. Now if you are a student of history you will know that every prophet sooner or later said or did something that placed him in a vulnerable position—and this may do the same for me. This is about what should be written, I may add, in my opinion. Take it or leave it.

RICHARD ROWE, INC.
Greensboro, N. C.
Attention Mr. Richard Rowe, Pres.

Gentlemen—While it is true that an overdue account occasions this letter still we want you to feel that this is no "ordinary run of the mill" collection letter. We don't believe in telling our customers that we think they have "overlooked" the bills they owe. You know that anyone that careless would not be in business for thirty years, as you have.

There must be a reason.

Your account is new with us. Confidence begets confidence and we know you must find the same pride in your list of customers who have bought your products for many years, that we do in ours. We hope that you feel as we do, that this is the beginning of many years of business friendship. Good will is the disposition of the customer to return to the place where he has been well served. We hope to earn and merit at all times your good will.

And that is why we do not want any carelessly written collection letter to destroy the work of our Sales Department.

It is our desire to work with you hand in hand to our mutual profit. These are not exactly ideal days for business. Things are rather complicated and each business has its difficult problems. Perhaps yours is a slow moving inventory of finished goods which has tied up operating capital—perhaps it is accounts receivable that are slow in coming in.

Perhaps you think we are dog-gone curious when so little is involved at this particular time. You are entitled to a fair, frank answer. We want your business—we want you to buy every product we make, that you use, from us. We feel that merchandise can be made no better than we make it—we feel that our prices and terms are fair and we feel that your business is desirable business. Your reputation like ours is for quality merchandise—merchandise that will stay on the job doing the job for which it was designed.

You have heard the old maxim "make your letters brief." We apologize for the length of this one. In the Credit Department this is our first contact with you and that is our excuse for lack of brevity. Please feel that no hard boiled credit man sits on any throne around here.

We will sincerely appreciate hearing from you.

Very truly yours,
General Credit Manager.

Account
July 18th, $175.47

Now perhaps this is no masterpiece. You can probably take it apart and put it together better and have parts left over. At least the man who receives it will know that it wasn't just another form letter.

It is my belief that thousands of follow-up collection letters are written because the first letter was just another form.

Make your first letter a letter that will produce a lasting and favorable impression. Write it so that each time your customer sees the name of your company he remembers the letter you wrote him when you first started to do business with him.

Don't underestimate the importance of the First Collection Letter.

It has been said that the successful collection and credit man is consistent, persistent and insistent—he is also (and write it in capital letters) a good first-letter writer.

Dead to Rights

Brown: "The boss says that when he was a boy on the farm they had a mule that was just like one of the family."

Jones: "Yes, and I know which one."

Dollars, debts and doubts

(*Cont. from p.* 41) volume of business. Every change in the price level is a change in the purchasing power of gold. As prices go up, the value of gold goes down so that there is a fluctuating level in gold.

It is a fact that more than half the gold used by man in historical times has been mined since 1900. This is largely due to the discovery of new refining processes. At present the production of gold is being stimulated by the premium it commands, so it is quite likely new production records may be established. But assuming there was a decline in the production of gold, it does not tend to prove the contention there is an inadequate supply for all needful monetary purposes.

It isn't the quantity but the elasticity which determines the needful amount of gold.

The utilization of the present amount of gold to the best possible efficiency has not by any means been developed, and hardly well-tested. The world's gold in use and held as reserves increased from 5¼ billion in 1914 to 11 billion in 1932 and this gain in itself was larger than the proportionate gain in the general volume of trade, so it would appear we need have no fear in our generation over a gold shortage.

To illustrate further the meaning of "elasticity" of gold, let me quote the ratios of gold to total currencies and deposits in several countries. In the United States it was in 1931 6.3; Great Britain 4.7; Germany 11. and Italy 17.9. These figures show that, in any country where the banking system is highly developed, the ratio needed is much lower. If all nations, for instance, developed an efficiency in the use of gold comparable to that of our country, prior to going off the gold standard, no one would give a thought to the possibility of a gold shortage. It is interesting to observe in this connection that England, prior to going off the gold standard, with only 700 millions in gold, was clearing more international business than the banking and currency system of both the United States and France, although we possessed together seven billions of gold.

But we are in an economic depression of unprecedented character. Those who would change the monetary system claim the gold standard is largely responsible for our plight. Gold standard advocates on the other hand contend it is not the "gold standard" that is at fault but the failure to allow it to operate that is responsible. These and other contentions will be fully discussed in my next article.

Recently I visited a midwestern city. There I met an old acquaintance. I had not seen him since boyhood days. Since he was far removed from his birthplace, I asked him what brought him such distance.

His reply was the usual response. "Henry, I'm here trying to make an honest dollar."

"Well Charlie," I said, "if you are honestly trying to make a dollar I think you will succeed, but if you are trying to capture an *honest dollar* you may have to invoke the miracles of the gods."

Have honest dollars become extinct in America? We'll see!

—*Continue this absorbing analysis of money next month in Mr. Heimann's second article.*

Gallantry in a nose dive.—"Few men have the courage to leave their wives," says a magazine writer.

None but the brave desert the fair.—*Boston Transcript.*

Answers to credit questions

Conducted by E. B. Moran

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

1. Attachment:

Q. I understand that in New York State the physician's instruments are exempt from levy or attachment under a judgment. Is this also true of his automobile?

A. No. This question has been decided recently in the Supreme Court of New York, the court saying that an automobile was not an instrument necessary to the practice of the physician's profession and does not come within the purview of the exemption.

2. Negotiable Instruments:

Q. How can you tell when a promissory note is negotiable?

A. When it contains the four essential elements of negotiability:

1. It must be in writing and signed by the maker.
2. It must contain an unconditional promise to pay a sum certain in money.
3. It must be payable on demand or at a fixed or determinable future date.
4. It must be payable to order or to bearer.

3. Contracts:

Q. If I see an article on display in a store window and a price card is affixed to it, is the management bound to sell me the article for that price?

A. No. A contract is not complete until there has been an offer and an acceptance thereof. In this case the price card was merely an invitation by the management to the prospective customer to make an offer which the management may accept or refuse.

4. Taxation:

Q. If a tax payer should sell stock at a loss, same to be paid for in installments over a period of three years, can he deduct the loss from his income tax returns over the three year period?

A. No. While under the Revenue Act of 1932 this would appear feasible on the theory that a loss incurred on an installment contract over a like period could be so deducted, the Court of Appeals of the District of Columbia decided that in the sale of stock, the entire loss must be deducted in the year the sale was made.

5. Legislation:

Q. I understand that there is a bill before the Pennsylvania Senate at the present time proposing an Act declaring it a misdemeanor for accountants or auditors to issue or permit to be issued false financial statements. Could not such a bill be brought before the United States Senate in an endeavor to have it passed as a Federal Law?

A. It would be impractical to bring such a bill before the Congress of the United States for the reason that the Federal Government has no jurisdiction over any ordinary business transactions except those in interstate commerce. However, the mailing of a false financial statement is a criminal offense under the Federal Law if on the procedure it could be shown that it is part of a scheme or device to defraud. Except when the mails are used, the matter is one for State Legislation only.

6. Decedent Estate Law:

Q. If a claim against a deceased debtor is duly filed with his executor in the State of Maine, is this filing sufficient to insure payment of the claim at least in proportion to the assets of the Estate?

A. No. Under the Maine statute, if the claim is filed according to statutory provisions with the executor or administrator, and is not paid within twelve months after the appointment of the executor or administrator, creditor must bring suit on the claim within twenty months after such appointment, or the claim is barred by statute.

7. Corporations:

Q. If a foreign corporation is doing business in a certain state without a license, can the officers, directors or stockholders of such foreign corporation be held individually liable for debts contracted by the corporation within the state?

A. This is not true generally, but it is in Colorado, Florida, Idaho, Iowa, Missouri, North Dakota and probably Indiana. Illinois has held both ways, and Tennessee has declared the directors liable with no mention made of the officers or stockholders.

8. Statute of Frauds:

Q. Are verbal leases for a period of more than one year ever valid?

A. In forty states and Alaska and the District of Columbia they are not, but you may make a valid verbal lease for a period not exceeding three years in Indiana, Maryland, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio and Pennsylvania. In Ohio, however, if the lease is for more than one year it must be accompanied by possession.

9. Sales:

Q. If I buy material by description and the delivered article does not correspond to the description, do I have to accept the material and pay for it?

A. No. When goods are sold by description there is an implied warranty that the goods will correspond to the description. Breach of this implied warranty is sufficient ground for recission of the contract of sale.

10. Bankruptcy:

Q. In consideration of a monetary loan, can a concern on the verge of bankruptcy assign its accounts receivable including subsequently acquired accounts receivable?

A. Yes. A recent case, in the United States District Court for the Southern District of New York declared such an assignment valid, but held further that the assignee had no right to the proceeds realized from merchandise returned on accounts that had been assigned to him, unless his right to the merchandise be in writing and made a part of the contract.

11. Income Tax:

Q. When must income tax returns be filed?

A. Calendar year returns must be filed on or before the 15th day of March following the close of the calendar year. Fiscal year returns must be filed on or before the 15th day of the third month following the close of the fiscal year. In certain cases, such as sickness or absence, collectors are authorized to grant extensions of time for filing returns, if application is made.

There's no perfect crime.—BETTY—How did mama find out you didn't really take a bath?"

BILLY—"I forgot to wet the soap."—*Boston Transcript.*


1934
JANUARY
Your Credit Information in 1934
Plan now to obtain, during 1934, credit information which will give you the same assurance in credit judgment that you would have if you knew personally all the individuals and small firms whom you will consider.
Plan to use RETAIL CREDIT COMPANY CHARACTER CREDIT REPORTS on individuals and small firms. Provide yourself with dependable current information on character—reputation—business stability—as well as the customary facts on finances.
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Court decisions

CONDITIONAL SALES CONTRACT. FURNACE. PERSONAL PROPERTY. RIGHTS OF OWNER, ORIGINAL PURCHASER, AND SUBSEQUENT REAL ESTATE MORTGAGEE (TENN.)

This is a replevin suit wherein plaintiff sold a furnace to one Fritz on a conditional sales contract. The furnace was set upon the basement floor, and was not attached thereto. The furnace when removed, caused no damage to the realty. The contract provides that the furnace is to be and remain personal property, and the right of possession in event of any default shall be and remain in the contractor until paid. The purchaser defaulted. Four years before, Fritz had executed a mortgage on his home to defendant not recorded until the day after the installation of the furnace. Said mortgage was foreclosed and the property bought in by the defendant.

Held that the furnace having been installed several years after the mortgage was executed, it constituted no portion of the mortgagee's security. Ordinarily such a furnace does constitute a part of the realty, since it is of a permanent character, and as to a subsequent mortgagee or an innocent purchaser it cannot be removed. As between the original parties, the intention to regard the furnace as personal property is the controlling factor. An agreement that an article attached to the realty shall remain personalty is ordinarily given full effect as against a mortgage of the realty made previous to annexation, in so far as this will not interfere with the security of such mortgage, the mortgagee not having been misled and having advanced nothing on the faith of such annexation. This rule would not apply where a removal of the fixture would cause serious injury to the freehold. Here the removal would not be injurious. Judgment for plaintiff affirmed. *Lenoir Land Co., Inc. v. Haynes Heating Co.* Tenn. Supreme Ct. Decided October 21, 1933.

BULK SALES STATUTE. CONSTRUCTION. SALE OF DRESSES. (MISS.)

Action to recover $300. This case involves a construction of the bulk sales statute, Section 3353, Code of 1930. Miller was a retail merchant in the City of Jackson. He was adjudged a bankrupt, and plaintiff was appointed trustee to administer the estate under the federal bankruptcy laws. Prior to the adjudication of bankruptcy, Miller sold to defendant 150 ladies dresses in bulk, for which defendant paid him $300. At the time of the sale Miller was insolvent. Both the seller and purchaser failed to comply with paragraphs a, b and c of the bulk sales statute, which provides that a sale of any portion of a stock of merchandise, otherwise than in the ordinary course of trade, or in the regular and usual prosecution of the seller's business, shall be presumed to be fraudulent and void as against the creditors of the seller, unless, at least five days before the sale: (a) the seller shall have made an inventory, showing the quantity, the cost price to him of each article sold; and (b) the purchaser shall have demanded from the seller the name and address of each of his creditors, and the sum due each; and (c) the purchaser shall have notified each of the seller's creditors of the proposed sale, of the cost price of the merchandise proposed to be sold, and of the price to be paid by the proposed purchaser. Defendant pleaded that such sales in bulk were customary among the retail merchants of the City of Jackson. Miller testified that, in addition to the sales in question to defendant, he sold goods from his store in bulk to L. Abrams and to Mrs. Sophia Lasunsky; that these bulk sales were out of his usual course of business, and were made because he was going out of his old place of business into a new store, where he expected to carry a better stock.

Held that the judgment of the court below for plaintiff is justified by both reason and authority. If defendant were right in his contention, it would mean that any insolvent retail merchant could sell out his stock in bulk without complying with paragraphs a, b, and c of the statute, provided he sold to more than one purchaser. The statute cannot be destroyed by custom and usage. Judgment affirmed. *Cohen v. Calhoun.* Miss. Supreme Ct. Decided October 16, 1933.

CONDITIONAL SALES CONTRACT. NON-COMPLIANCE WITH STATUTE. LACK OF ACKNOWLEDGMENT AND WITNESSES. ENFORCIBILITY BY ASSIGNEE. (CONN.)

Plaintiff alleged that Blatchley and Martin, doing business as the Kelvinator of Waterbury, entered into an agreement of conditional sale with the defendant Chronis, whereby they agreed to place in his possession certain refrigerating equipment. It was further alleged that the agreement had been performed by the seller and assigned to the plaintiff. Plaintiff asked judgment for the return of the equipment or, in the alternative, damages. The trial court concluded that the plaintiff was entitled to the balance due on the contract. Defendant has appealed, claiming that the contract, not having been witnessed and acknowledged as required by General Statutes, sections 4697 and 4699, is unenforceable by the plaintiff as assignee of the seller.

Held that the effect of these sections is not to render invalid, as between the parties, contracts of conditional sale which have been defectively executed, but to render such contracts of conditional sale absolute as to creditors and bona fide purchasers. In the instant case, no rights of creditors had intervened, and the conditional vendor could sell his interest in the property and the contract, subject to the rights of the vendee, which he did not disturb, the same as one could, in like manner, sell his interest in any other property. Judgment affirmed. *Refrigeration Discount Corporation v. Chronis et al.* Conn. Supreme Ct. of Errors. Decided October 24, 1933.

RETENTION OF TITLE CONTRACT. COMMON LAW LIEN. RIGHTS OF PARTIES. (TENN.)

Asserting a claim in default for unpaid purchase money secured by a retention of title contract, plaintiff brought replevin against the Garage to recover a car which a Deputy Sheriff had taken from the purchaser under an execution or attachment, and stored with the Garage. Storage charges of $11.00 had accrued when McJunkin demanded possession, which the Garage refused to deliver, except on payment of the storage charges, for which they claimed a lien. Judgment was rendered sustaining the superiority of the Garage keepers lien over the retention title lien of plaintiff of which the Garage had no record or other notice.

Held that plaintiff did not own the car absolutely, but held a lien merely, as security for the purchase money, by the retention of the title. The possession of the officer being lawful carried with it the same right the owner had to do what was necessary for the car's protection. This inured to the benefit of plaintiff. The statute (1932 Code 7979) gives to Garage keepers the same lien as the innkeeper's lien at common law. Common law liens of the artizan and the innkeeper were superior to an unrecorded retention of title lien. Judgment is affirmed. *McJunkin v. Chattanooga Garage.* Tenn. Supreme Ct. Decided October 23, 1933.

CONDITIONAL SALE. DEFAULT. BREACH OF WARRANTY. EFFECT OF SUBSEQUENT ACKNOWLEDGMENT OF DEBT. (KY.)

Defendant purchased from plaintiff a car and made a down payment and for the balance executed his promissory note, payable in installments, and secured by chattel mortgage. Defendants, being in default, executed a written contract by which he turned the car over to plaintiff to be sold at private sale. The car was so sold and a balance was still due plaintiff and defendant appeals. Defendant admitted the execution of the note and counterclaimed for damages for breach of warranty, and for plaintiff's failure to equip the car with a new engine.

Held the defendant would have been defeated had no evidence been introduced, and consequently it was not error to charge that the burden of proof was on him. Defendant did not defend on the ground of material alteration, so the fact plaintiff wrote "Mrs." before defendant's name on his note is mere evidence, and without a pleading constitutes no defense. Defendant by an agreement in writing acknowledged his indebtedness to the plaintiff. This was a waiver of any claim for damages for the alleged breach of warranty. Judgment affirmed. *Newman v. Preston Motor Co.* Ky. Ct. of Appeals. Decided October 24, 1933.

CONDITIONAL SALE IN ILLINOIS. TRUCK. REMOVAL TO WISCONSIN. ATTACHMENT BY VENDEE'S CREDITOR BEFORE CONTRACT FILED. NOTICE TO CREDITOR WITHIN TEN DAY PERIOD. RIGHTS OF VENDOR. (WISC.)

Action to recover the possession of a truck. Consolidated Confections Company, an Illinois corporation, purchased a truck from an Illinois motor company under a conditional sales contract. The motor company assigned the contract to the plaintiff. Thereafter the Confections Company defaulted by removing the truck from Illinois into this state and by failing to meet the monthly installments. The plaintiff first received notice of the removal of the truck on January 19. On January 20, a writ of attachment against the property of the Confections Company was issued in an action in which one Wartner was the plaintiff. On the same day, the sheriff, who is the defendant in the present action, attached the truck. Wartner did not know that the plaintiff held a conditional sales contract upon the property, until he received a notice to that effect from plaintiff on January 22. Plaintiff did not, within ten days after receiving notice of the removal of the truck into this state, file its contract or a copy thereof with the register of deeds of

the county nor has it ever at any time attempted to comply with the provisions of sec. 122.14, stats. It is conceded that this controversy is ruled by secs. 5 and 14 of the Uniform Conditional Sales Act (secs. 122.05 and 122.14, Stats.).

Held that the provision of the contract reserving property in the seller is void as to Wartner who, without notice of the provision of the contract, acquired a lien by attachment before the contract was filed, but who however did in fact have notice of such provision during the ten day period in which the plaintiff was required to file its contract or a copy thereof after it received notice of the filing district into which the truck had been removed. Judgment for defendant affirmed. *Universal Credit Co. v. Finn.* Wisc. Supreme Ct. Decided October 10, 1933.

SALE OF AUTOMOBILE. TITLE. WRITTEN INSTRUMENT. WHETHER CONDITIONAL SALES CONTRACT OR MORTGAGE. (CALIF.)

Proceeding to determine title to an automobile upon which a third party claimant loaned money. A purported conditional sales contract was not acknowledged or recorded, and no affidavit of the parties attached.

Held that it was a conditional sales contract in form only, in legal effect constituting nothing but a mortgage as between the owner and the third party claimant. The owner never having parted with possession of the automobile, the attempted transfer was void as against plaintiff, an execution creditor of the owner. *Wehrle v. Marks et al.* Calif. Dist. Ct. of Appeals, 1st Appellate Dist. Decided September 11, 1933.

Let slip the dogs of war.—"Shall we have a friendly game of cards?"

"No, let's play bridge."—*Troy Times.*

A catalog of coverages

(*Cont. from p.* 9) potential or inherent. In such instances the advisability of explosion insurance is usually well recognized, but to those who have given much thought to this subject, it appears that the credit man would be doing a real service not only to his own organization but those to whom credit is extended by encouraging—and if needs be, demanding—that explosion insurance be carried even in those risks where the hazard might be considered as being mild.

Mention should also be made of riot and civil commotion insurance, particularly in view of the unrest which is now so general in many lines of industry. Many property owners carry this type of protection both in good times and bad, realizing the extreme difficulty of obtaining this valuable protection when labor conditions are abnormal or a strike is in progress. Unquestionably, the destruction of property caused by a riot might imperil the financial solvency of a concern, in the absence of riot and civil commotion insurance, inasmuch as the standard fire insurance policy specifically excludes liability for loss or damage caused directly or indirectly by a riot, insurrection or civil commotion.

These comments are admittedly inadequate to do justice to this important subject. However, they should serve as a foundation for constructive thought by credit men generally as to the tie-up between Credit and Insurance. They should also help to bring about a realization of the important fact that where the debtor is not properly protected by insurance his acceptability as a credit risk is to some degree, at least, doubtful.

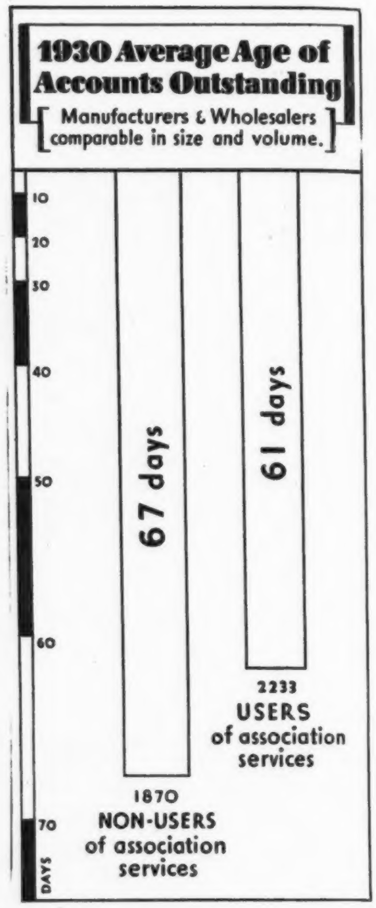
Born hijacker.—A man who was motoring along a country road offered a stranger a lift. The stranger accepted. Shortly afterward the motorist noticed that his watch was missing.

Whipping out a revolver which he happened to be carrying, he dug it into the other man's ribs and exclaimed: "Hand over that watch!"

The stranger meekly complied before allowing himself to be booted out of the car. When the motorist returned home he was greeted by his wife.

"How did you get on without your watch?" she asked. "I suppose you know that you left it on your dressing-table?"—*Washington Labor.*

6 days is a l-o-n-g time out of circulation



Six days is not long as the clock flies but it is a l-o-n-g time to wait for your money. Multiply that six day period by the number of accounts on your books and multiply that total by your yearly turnover of realized receivables and you have a surprising addition to your working capital.

The Collection Bureaus bring in your slow accounts more quickly. The Adjustment Bureaus effect liquidations more promptly. The net result is a decrease in average age of accounts outstanding of six days for those who use association services. If you can use the surprising addition to your working capital that that six day difference returns call the nearest office of the

Collection-Adjustment Bureaus

E. B. Moran, Director

NATIONAL ASSOCIATION OF CREDIT MEN
One Park Avenue New York City

After REPEAL—

WATCH OUT!

PROFIT FOR "FENCES" RUNS INTO MILLIONS

Lines Drawn for Finish Fight Between Legitimate Business and Crime Syndicates

TRADE FACING NEW DEAL TOO FROM RACKETS

With Legitimate Business Returning Profits, Old Hazards Return.

RACKETEERS PREY

Domestic Commerce Now Facing Bitterest Fight Since Bootleg Trade Was in Its Heyday.

BUSINESS FIGHTING 'MOBS'

CRIME CONTROL

CRIME WAR 'REAL,' ASSERTS CUMMINGS

Government, to Survive, Must Crush Menace of Armed Underworld, He Says.

RACKETS

INDUSTRY WARNED OF RACKETS WHEN PROHIBITION ENDS

End of Alcohol Means Revenue Can Come Only From Rackets.

SEAS OF COMMERCE MUST BE CLEARED

"Smash the Rackets"

Gangsters' Spoils Picking Up As Business Finds Its Footing

Credit Men Prepare to Resist Racketeers

MERCHANDISE RACKETS EXACT A HEAVY TOLL

MAJOR CRIME WAVE FORESEEN BY GODDARD

Northwestern University Expert Blames 'Politico-Criminal Affiliations in Cities.

CHICAGO, Sept. 30 (AP).—A new wave of major crime will encompass the country within the next few months, Colonel Calvin Goddard, Director of Research of Northwestern University's Crime Detection Laboratory, predicts.

Increased Federal activity against criminals and infliction of the death penalty upon kidnappers are among his proposals for combating the increase in kidnapping, bank robberies, mail robberies and industrial racketeering which he says he expects.

"Statistics show that certain types of crime are on the increase," Colonel Goddard said. "This gain is due mainly to the politico-criminal affiliation that exists in our local communities."

He said the return of beer unquestionably had driven many criminals into new fields.

"They're unquestionably not going to give up any easy profits. They'll turn to newer and bolder fields and their depredations will result in more crimes of violence."

—THE NEW YORK TIMES.

Already the Racketeers Are Seeking New Worlds to Conquer—What Shall We Do About It?

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FRAUD PREVENTION DEPARTMENT

NATIONAL ASSOCIATION OF CREDIT MEN, ONE PARK AVE., NEW YORK, N.Y.